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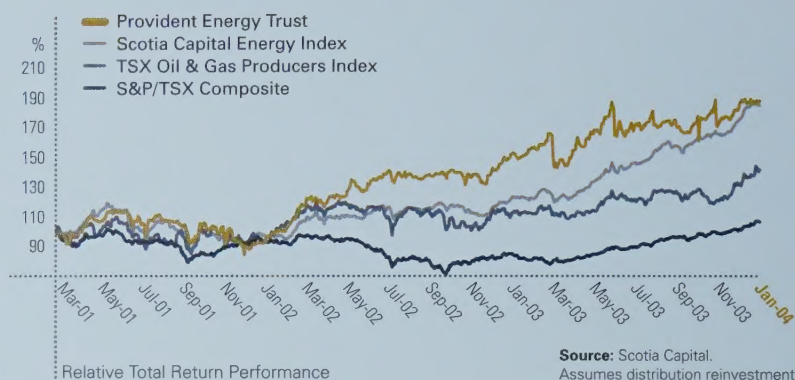


adding a **new** dimension

ANNUAL REPORT 2003



Every year since inception in 2001, Provident Energy Trust has delivered solid unitholder value. 2003 was no different as Provident posted a total return of 25 percent including \$2.06 per unit in cash distributions and \$0.60 of capital appreciation per unit.



solid returns for the long-term

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As an energy trust, our value proposition is to deliver to unitholders stable cash distributions and accretive growth of our underlying business. Over the 34 months of our existence we have done just that, generating a total return of 58 percent including cash distributions of \$6.63 per unit.

In 2003, we added a new dimension to Provident with the adoption of a balanced portfolio strategy, the acquisition of long-life energy infrastructure, the addition of new management expertise, and the expansion of our risk management program. As a result of these actions, Provident is better positioned than ever to deliver solid returns to unitholders over the long-term.

Note: All amounts throughout the report are in Canadian dollars unless otherwise noted.



a balanced portfolio strategy

➤ Provident was the first energy trust to adopt a balanced portfolio strategy and diversify into energy infrastructure – acquiring the Redwater Natural Gas Liquids (NGL) Processing System in 2003.

Combining the oil and natural gas production and NGL services businesses diversifies Provident's capital investments, thereby:

- enhancing the stability of Provident's cash flow and distributions,
- extending the economic life of Provident given the addition of long-life NGL processing assets, and
- expanding opportunity for growth across the energy value chain – in oil and natural gas production and related energy infrastructure.



Redwater Fractionation, Transportation and Storage Facility.

a strong asset base

 Each year since conversion to a trust, we have high-graded our asset portfolio to lend greater stability to Provident's cash flow and distributions. In 2003, Provident's average daily production was 27,314 barrels of oil equivalent per day (boed). With an original focus on heavy oil, Provident now maintains a balanced production mix of 46 percent natural gas, 29 percent light/medium oil and natural gas liquids (NGL) and 25 percent heavy oil. Provident's quality of reserves also improved with the percentage of proved developed producing reserves as a percentage of total proved reserves increasing from 82 percent at year-end 2002 to 85 percent at year-end 2003.

Our 2003 Redwater NGL Processing System acquisition added a world class asset. Provident's Redwater assets comprise the most modern and lowest-cost-NGL processing system of its kind in Western Canada. Located in one of the four main North American NGL hubs, Redwater accounts for 30 percent of the NGL fractionation capacity in Western Canada and is an important asset in the future of Canada's oil and natural gas industry. The long-life nature of the assets combined with long-term fee-based and fixed-margin contracts make it an ideal investment for an energy trust.



an experienced team

 Provident's management expertise spans the energy value chain. With the addition of new team members in 2003, Provident's core competencies include: heavy oil and natural gas exploitation and production; natural gas liquids extraction, transportation, fractionation, distribution and marketing; and risk management and crude oil and natural gas marketing.

Leadership and innovation are hallmarks of Provident. Our corporate values of Respect, Integrity, Creativity, and Excellence (R.I.C.E) define how each employee conducts business and cares for Provident's stakeholders. Our values-based leadership model and innovative thinking enable Provident to find untapped value-enhancing opportunities from which unitholders will derive long-term value.

Provident's firsts among conventional oil and gas trusts include:

2001  Converted from a conventional oil and natural gas company to an energy trust

2002  Issued convertible debentures

 Offered Premium Distribution Reinvestment Program

2003  Adopted and executed a balanced portfolio strategy

 Diversified into energy infrastructure

 Issued \$275 million in a single bought-deal financing



From left to right:

Cameron G. Vouri, Vice President, Production Operations and Chief Operating Officer

Gary R. Kline, Vice President, Commercial Development and Risk Management

Andrew G. Gruszecki, MBA, Vice President, NGL Services

David J. Fricker, P. Eng., Vice President, Corporate Development

Mark N. Walker, CMA, Vice President, Finance, Chief Financial Officer and Corporate Secretary

financial highlights

summary of

Canadian dollars (000s except per unit amounts)	Year ended December 31,		
	2003	2002	% Change
Revenue	\$ 473,571	\$ 207,823	128
Cash flow from operations	\$ 135,706	\$ 96,896	40
Per weighted average unit - basic	\$ 1.98	\$ 2.41	(18)
Declared distributions to unitholders	\$ 129,612	\$ 81,526	59
Per unit	\$ 2.06	\$ 2.03	1
Net income	\$ 33,394	\$ 8,340	300
Per weighted average unit - basic	\$ 0.38	\$ 0.09	322
Per weighted average unit - diluted	\$ 0.38	\$ 0.09	322
Capital expenditures	\$ 31,628	\$ 21,980	44
Acquisition of businesses	\$ 298,638	\$ 356,963	(16)
Property acquisitions	\$ -	\$ 71,986	(100)
Property dispositions	\$ (9,947)	\$ (11,157)	(11)
Bank debt	\$ 236,500	\$ 187,200	26
Unitholders' equity	\$ 679,228	\$ 471,420	44
Weighted average trust units and exchangeable shares outstanding (000s)	68,448	40,222	70

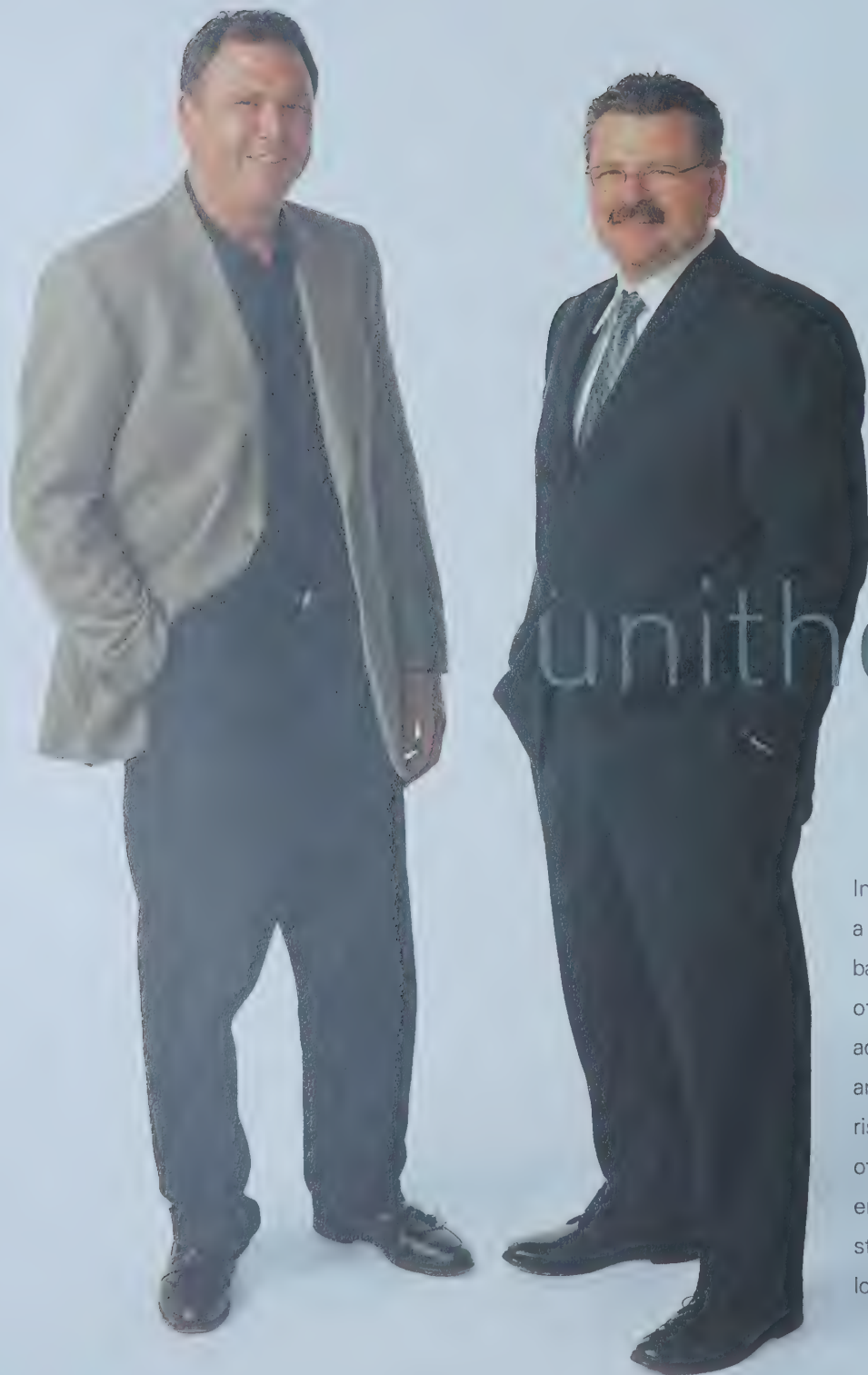
results

operational highlights

Canadian dollars	Year ended December 31,		
	2003	2002	% Change
Daily production			
Light/medium crude oil (bpd)	6,812	5,096	34
Heavy oil (bpd)	6,902	6,310	9
Natural gas liquids (bpd)	1,167	1,030	13
Natural gas (mcf)	74,596	56,193	33
Oil equivalent (boed) ⁽¹⁾	27,314	21,801	25
Average selling price ⁽²⁾			
Light/medium crude oil (\$/bbl)	\$ 29.09	\$ 34.62	(16)
Heavy oil (\$/bbl)	\$ 22.09	\$ 20.02	10
Corporate oil blend (\$/bbl)	\$ 25.57	\$ 26.55	(4)
Natural gas liquids (\$/bbl)	\$ 35.87	\$ 29.04	24
Natural gas (\$/mcf)	\$ 5.71	\$ 4.67	22
Oil equivalent (\$/boe) ⁽¹⁾	\$ 30.16	\$ 27.29	11
Netback (\$/boe) ⁽¹⁾⁽²⁾	\$ 15.19	\$ 15.09	1

[1] Provident reports barrels of oil equivalent production converting natural gas to oil on a 6:1 basis.

[2] Average selling price and operating netback exclude the non-cash amortization of hedging gains but include the cash impact of the Commodity Risk Management Program.



letter to fellow

unitholders

In 2003, Provident Energy Trust added a new dimension with the adoption of a balanced portfolio strategy, the acquisition of energy infrastructure assets, the addition of new management expertise, and the implementation of an integrated risk management program. As a result of these actions, Provident is a stronger energy trust – more diversified and more stable – and better positioned to deliver long-term value to investors.

Thomas W. Buchanan, CA
Chief Executive Officer

Randall J. Findlay, P. Eng.
President

Since inception on March 6, 2001, Provident's philosophy has centered on delivering to unitholders stable cash distributions and accretive growth of our underlying business. In 2003, we performed well against these objectives:

- Cash distributions declared were \$2.06 per unit, bringing total distributions over 34 months to \$6.63 per unit, more than 50 percent of the conversion opening trust unit price of \$11.37;
- Total return, which includes cash distributions and capital appreciation, was 25 percent for the year and 58 percent since inception; and
- The acquisition of the Redwater NGL Processing System was accretive to cash flow and net asset value, and significantly extended the economic life of Provident by approximately 40 to 50 percent.

from our distribution reinvestment programs and minor property divestitures.

For us, the highlight of 2003 was the adoption and execution of our balanced portfolio strategy and Provident's subsequent expansion into the midstream services business with the acquisition of the Redwater NGL Processing System.

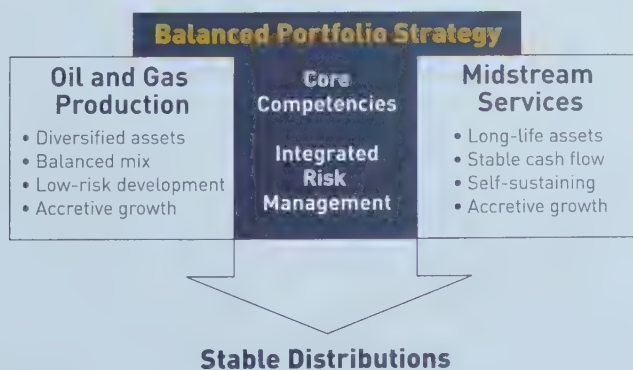
In 2002, Provident's Board of Directors and management team spent a good deal of time evaluating Provident's long-term strategy. The conclusion we reached was based on Provident's cost of capital, the proliferation of oil and natural gas trusts, and the escalating competition for mature oil and natural gas properties, Provident should consider expanding the scope of its business. Such an expansion would enable Provident to continue to deliver upon our value

We are uniquely positioned with two strong platforms for growth.

Since the very beginning of our trust operations, Provident has maintained a high annual payout ratio. We believe cash flow remaining after debenture interest and capital obligations should be distributed to unitholders. In 2003, we paid out all our adjusted cash flow as we were able to satisfy our \$31.6 million capital program requirements with funds

proposition of generating stable distributions and growth of our underlying business.

As a result, Provident's strategy of being a consolidator of shorter life oil and natural gas assets evolved to the balanced portfolio strategy. Our balanced portfolio strategy directs



Provident to seek opportunities across the energy value chain that are not only accretive in the short-term but will provide greater balance and stability of cash flows and distributions over the long-term.

In 2003, the valuation arbitrage opportunity that existed between junior oil and natural gas companies and larger, more-liquidly traded energy trusts eroded substantially. As a result, Provident found it difficult to create significant unitholder value through the acquisition of companies trading at multiples near to or at those of Provident.

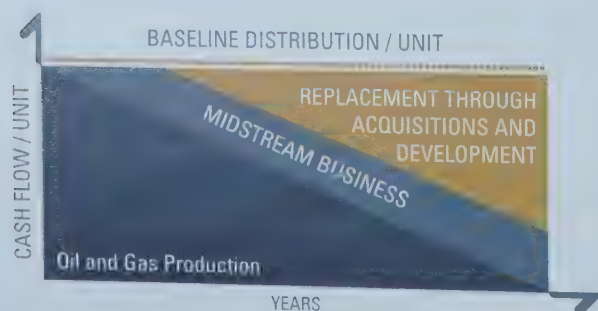
Remaining disciplined in our approach to acquiring assets, our strategic decision to seek accretive growth across the energy value chain was rewarded when we were announced as the successful acquirer of the Redwater NGL Processing System. In conjunction with the acquisition, Provident closed a bought deal financing for total net proceeds of approximately \$263 million – at the time the largest bought deal in the history of the conventional oil and natural gas

**As shown below, the acquisition of a long-life, stable cash flowing asset like Redwater reduces the need to replace production declines through acquisitions or capital spending. It also significantly enhances the economic life of Provident.*

Stand Alone Oil and Gas Trust



Provident's Balanced Portfolio



trust sector. The financing included a total issuance of 19.2 million trust units at a price of \$10.50 per trust unit and \$75 million of five-year 8.75 percent convertible unsecured subordinated debentures.

A world-class asset, the Redwater NGL Processing System is a stable, long-life physical asset with long-term fee-for-service and fixed-margin contracts. The midstream investment complements our Oil and Natural Gas Production business (OGP) and enhances the stability of Provident's cash flow and distributions. Further, the Redwater NGL Processing System, unlike all oil and natural gas production investments, does not decline and only requires minimal annual capital investment of approximately \$1 million to sustain cash flow levels.

In 2004, the Midstream Services business is forecast to account for 25 to 30 percent of Provident's cash flow, the balance of which will be derived from the Provident's OGP business. As a result of the long-term cash flow forecasts for the midstream asset, Provident's economic life has been extended approximately 40 to 50 percent beyond that which is measured by the reserve life of Provident's oil and natural gas assets. Further, by adopting a balanced portfolio strategy Provident has significantly reduced the need to replace declining production from its OGP business in order to sustain distribution levels. (see graphic – left)

Provident also realized results in its OGP business in 2003, achieving a 95 percent success rate in its heavy oil drilling program, adding approximately 2,650 boed of initial production primarily in the Lloydminster area. For the year, a total of 3,200 boed of initial production was added from internal development at a cost of approximately \$8,800 per flowing boe. Additionally, we are very enthusiastic about the work completed in 2003 by Provident's exploitation, geological, land and engineering teams on properties acquired in 2002. As a result of the teams' work, Provident has identified over 100 opportunities, more than two-thirds of which are shallow natural gas related on properties located in Southern Alberta and Saskatchewan. To capitalize

on these opportunities, Provident has increased its 2004 internal capital budget by 45 percent to \$46 million.

In 2003, Provident had minimal revisions to its reserves on a company-interest basis under the Canadian Securities Administrators' National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Before accounting for production, proved plus probable reserves were virtually flat compared to 2002, as were proved developed producing reserves. The proved plus probable category was revised upward by 1 percent while the proved developed producing reserve category had a downward revision of 1.5 percent. With regard to the quality of reserves, Provident realized a 3 percent increase in its proved developed producing reserves as a percent of total proved reserves from 82 percent at year-end 2002 to 85 percent at year-end 2003. The fact Provident experienced minimal changes to its reserves is an indication of the solid quality of its oil and natural gas assets.

While much was accomplished in 2003 that made Provident stronger, we were not without our challenges and disappointments.

Despite our drilling success, operationally we had mixed results in our oil and natural gas production business. We fell short of our average daily production goal of 28,500 boed, averaging 27,300 boed. The shortfall was mainly due to higher natural gas declines at both our Brazeau and Gilby fields, project deferrals, and the fact we chose not to complete a significant oil and natural gas acquisition.

We also experienced higher operating costs in 2003 and netbacks that were flat year over year. Annual operating cost averaged \$7.66 per boe. Similar to our industry peers, Provident's increased costs were due to higher costs for processing, propane, electricity, well servicing and workovers. Field netbacks were flat year-over-year due to higher operating costs, the effects of an 18 percent run-up in the value of the Canadian dollar relative to the U.S. dollar, and the \$49 million (\$0.71 per unit) in opportunity costs associated with Provident's Commodity Price Risk Management Program.

Management of our communications with investors regarding residency requirements and mutual fund trust qualifications also proved to be a challenge. In 2003, our non-Canadian resident investor base grew rapidly. What surprised our investors was the residency requirement in our original trust indenture that provided that non-residents of Canada may not hold more than one-half of the outstanding trust units. This residency requirement was written into the trust indenture as one measure for ensuring that Provident qualifies as a mutual fund trust under a provision of the Income Tax Act of Canada.

What we may not have communicated effectively was the fact that although more than half of Provident's units were held by non-Canadian residents, Provident still qualified as a mutual fund trust pursuant to current Canadian income tax legislation. In September 2003, 99.2 percent of our Canadian unitholders voted in favor of an amendment to Provident's trust indenture to provide that residency restriction provisions need not be enforced while Provident continues to qualify as a mutual fund trust. The amendment further provides for Provident's Board of Directors to have sole discretion to determine whether and when it is appropriate to reduce or limit the number of trust units held by non-residents of Canada.

We appreciate investors don't like surprises. Neither do we. Over the last few months we have taken several steps to ensure there are no surprises and to improve the management of Provident. These steps include:

Enhanced Management Expertise

One of Provident's core strengths should be its management team. In 2003, with the diversification of our business and increased unitholder base, we recognized the need to enhance the skills sets at the management level.

In October 2003, upon the close of the acquisition, we added expertise in midstream services with the addition of the Redwater NGL Processing System commercial and operations teams to Provident. Collectively, this group

has decades of experience in midstream operations and marketing. At the executive team level, the Midstream Services unit is led by Andy Gruszecki, vice president of NGL Services. Andy has more than 25 years of experience in oil and NGL marketing, business development and planning. Interestingly, Andy and many of the midstream services employees worked with Provident's President Randy Findlay from 1995 to 1998, when Randy led NOVA Corporation's midstream business. At Nova, Randy was responsible for the planning, development, construction and operations of the Redwater NGL Processing System.

The increasing scope of our business demands that we have the appropriate systems in place and execute the best strategies to ensure we protect our unitholders, stakeholders, assets, environment, cash flow and distributions from business and market risks. In October 2003, we enhanced our resources in this regard when Gary Kline joined the Provident team as the vice president of commercial development and risk management. A 20 year veteran of the energy industry, Gary has executive responsibility for the elevation of an expanded and integrated risk management program that cuts across business units and commodities, and incorporates systematic programs to mitigate business and market risks. Gary also leads our efforts to source optimization and synergistic business opportunities across our oil, natural gas and NGL lines of business to increase cash flow.

Over the last 12 months Provident's unitholder base has doubled from just under 30,000 to approximately 60,000. To ensure that we maintain open and direct communications with our growing investor base, Jennifer Pierce was brought on board July 2003 as senior manager of investor relations and communications. With over a decade of issues management and business communications experience, Jennifer's role is to ensure Provident effectively communicates with its stakeholders about the Trust and issues that affect our business environment.

Realignment of OGP Operating Teams

To provide greater clarity around responsibility and accountability within the OGP group, we reorganized our land, geological, engineering, and operations teams into specific geographic regions. The purpose of the reorganization was to consolidate regional expertise so that teams are more focused on optimizing netbacks by controlling costs and managing production, adding production and reserves through halo acquisitions and internal development projects, and building an inventory of low-risk development projects.

Continued Emphasis on Core Values

Our core values of Respect, Integrity, Creativity, and Excellence (R.I.C.E.) are more than words on paper, they are the guiding principles by which all of us at Provident work daily. We believe adherence to a value-based leadership model will result in better returns to unitholders and care for stakeholders. In 2003, our internal communications, development programs and employee evaluation process placed additional emphasis on our core values.

At Provident, R.I.C.E. underpins a team-based culture that promotes the rapid elevation of not only good news but where necessary bad news. As a result, investors and stakeholders can have confidence that we will continue to be transparent in our operations and that we will communicate with them honestly and forthrightly when issues arise that may have a material affect on Provident.

A Promising Future

Provident is a growing, diverse enterprise, uniquely positioned among Canadian energy trusts. Our balanced portfolio strategy, quality mix of assets, and industry expertise creates strong platforms for continued growth and generation of solid unitholder returns over the long-term.

Having been a trust for three years, Provident has matured as a business and organization. In addition to being focused upon executing the next accretive acquisition, we are

dedicated to improving the mechanics and performance of our existing operating businesses. We believe steps implemented in 2003 have put us on the right track for meeting our performance objectives in 2004 of generating stable distributions and increasing the value of our underlying assets.

In 2004, Provident anticipates the oil and natural gas acquisition environment will remain extremely competitive as more exploration and production companies convert to trusts and more income trusts compete for the assets in the Western Canada Sedimentary Basin. As a result, Provident has increased its focus on internal development of shallow natural gas and heavy oil prospects in Southern Alberta, Saskatchewan and Lloydminster. Provident is also pursuing acquisitions around core properties, as well as highly accretive opportunities both within and outside of Western Canada.

The infrastructure market will continue to hold opportunity for Provident given the barriers to entry remain high for conventional oil and natural gas trusts that lack specific competencies in pipelines, NGL processing or power generation. The pullback and exodus from major infrastructure investments in Canada by traditional U.S. midstream infrastructure owners and marketing-oriented ventures should provide acquisition opportunities. Additionally, Provident will build upon its Redwater footprint to provide innovative value-added services and products to existing and new customers. The market's positive reaction to Provident's expansion into the midstream services business indicates investors have an appetite for more transactions that lead to stabilization of cash flows and longevity of Provident.

Provident remains committed to executing an integrated risk management program as we believe it protects the stability of cash flow and distributions and our stakeholders from business and market risks. From a financial perspective, we will mitigate our exposure to commodity-price volatility by selling forward a portion of our oil, natural gas, and NGL production. We will also work to capitalize on synergies between the Midstream Services and OGP businesses in order to optimize cash flow opportunities and hedge commodity risks. And we will continue to assess the processes in place at the operating, strategic planning and organizational levels of Provident to minimize business risk.

As a management team, we are excited about the prospects before us in 2004 and beyond. We have the right business model to deliver value over the long-term. We have an asset mix that provides solid platforms for growth across the energy value chain in oil and natural gas production, midstream services, and energy infrastructure. And we have the employee team to optimize existing operations, serve customers, care for our stakeholders, and find innovative means to create lasting unitholder value.

We would like to acknowledge our employees for their contributions in 2003 and shared commitment to Provident's values. To our Board of Directors, we thank you for your counsel and guidance. To our unitholders, investors, and other stakeholders we appreciate the trust you have placed in us and we will work hard to reward you for your investment in Provident Energy.

Sincerely,



Thomas W. Buchanan
March 11, 2004



Randall J. Findlay

 The primary responsibility of Provident's Board of Directors (the Board) is to provide effective stewardship over Provident's affairs for the benefit of unitholders, investors, employees and other stakeholders.

Since Provident's inception in March 2001, the Board has developed and implemented corporate governance practices to ensure it has the authority, expertise, systems and processes to review and evaluate Provident's strategic direction, financial performance, operations and executive performance; and to make decisions independent of Provident's management.

Provident's Board takes its stewardship responsibilities seriously. Collectively, we are committed to ensuring Provident holds itself accountable to the highest standards of governance. Provident's corporate governance practices follow specific corporate governance guidelines established by the Toronto Stock Exchange (TSX) and include recent reforms adopted by securities regulators in Canada and the United States.



Grant D. Billing, CA
Chairman of the Board

message from the chairman

The Board continues to monitor governance and financial disclosure reforms, and will implement changes to Provident's governance policies and practices as necessary, to ensure compliance with the Sarbanes-Oxley Act of 2002, relevant new rules issued by the U.S. Securities and Exchange Commission, Nasdaq (AMEX), TSX, other applicable regulatory authorities, and industry best practices.

This past year, with Provident's growth in market capitalization, acquisition of the Midstream Services business unit, and additional board-level audit and reserve evaluation responsibilities, the Board was pleased to welcome two new independent directors. Mr. Norman Gish was appointed in October 2003 and Dr. Robert Mitchell joined the Board in January 2004. Provident's Board now includes 10 directors, eight of whom are independent. Provident endeavours to have a board comprised of members who demonstrate independence, wisdom, integrity and the business or professional knowledge and proven experience to meet the challenges of Provident. Individual directors understand and accept Provident's corporate philosophy and possess the willingness to commit time and energy to ensure the long-term interests of unitholders and investors are met.

As Provident moves into its fourth year, unitholders, investors, employees and other stakeholders can have confidence the Board is dedicated to ensuring Provident continues to conduct business ethically, legally, and in a manner that is fiscally, environmentally and socially responsible. They need also know of the Board's commitment to providing unitholders with stable distributions and maximum returns from Provident's underlying business over the long-term.

Sincerely,

Grant D. Billing
March 11, 2004

Management Directors



**Thomas
W. Buchanan, CA**

Chief executive officer and director since March 2001. Director of Hawk Energy Inc. and chairman of Renfrew Educational Services, a not-for-profit educational organization for children with special needs.



**Randall
J. Findlay, P.Eng.**

President and director since March 2001. Director, TransAlta LP, as well as director and co-chair of major gifts for the Alberta Children's Hospital Foundation. President and a director of the Canadian Mental Health Association.

Independent Directors



Grant D. Billing, CA⁽¹⁾
Chairman of the Board

Chairman of the Board since March 2001. Mr. Billing also serves on the Governance, Human Resources and Compensation Committee. He was the senior executive officer of Superior Propane from October 1999 to March 2001 and since 1998 has been the executive chairman of Superior Plus Inc.



M.H. (Mike) Shaikh, CA⁽²⁾

Chairman, Audit Committee. Director since March 2001. President of M.H. Shaikh Professional Corporation (Chartered Accountants). Currently, or has been, a director of Hawk Oil Ltd., Winstar Resources Ltd., IMS Petroleum Ltd., and Spearhead Resources Ltd.



John B. Zaozirny, Q.C.⁽³⁾

Chairman, Governance, Human Resources and Compensation Committee. Director since March 2001. Counsel to the law firm of McCarthy, Terrault and vice chairman of Bancroft Capital Corporation. Director and a strategic advisor to a number of public and private corporations, as well as a governor of the Business Council of British Columbia.

Independent Directors



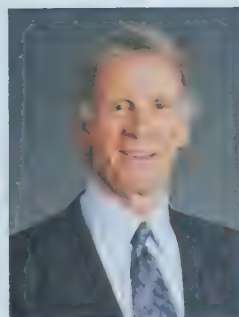
Jeffrey T. Smith, P.Geo.⁽¹⁾

Chairman, Reserves, Operations and EH&S Committee. Director since May 2001. Former chief operating officer of Northstar Energy Ltd.



Norman R. Gish, LL.B.⁽²⁾

Director since October 2003. Director of Superior Plus Inc., Noranda Inc., director and chairman of Railpower Technologies Corp, Energreen Canada Corp., and Quadrise Canada Fuel Systems. Previous chairman, president and CEO of Alliance Pipeline Ltd., and Aux Sable Liquids Products Inc.



Bruce R. Libin, Q.C.⁽²⁾

Director since May 2001. President of B.R. Libin Capital Corp. Chairman, CEO and managing director, Destiny Resources Services Corp.



Robert W. Mitchell, Ph.D.⁽¹⁾

Director since January 2004. Former executive vice president, North America for Talisman Energy. Member of the Advisory Committee to the Alberta Energy and Utilities Board and the Society of Petroleum Engineers. Director of the Petroleum Technology Research Centre in Saskatchewan and the Canadian Gas Potential Committee.



Byron J. Seaman, D.Sc.⁽³⁾

Director since March 2001. Director, Rider Resources Ltd. and Zargon Oil & Gas Ltd. Director and part owner of the Calgary Flames Hockey Club.

⁽¹⁾ Governance, Human Resources and Compensation Committee

⁽²⁾ Audit Committee

⁽³⁾ Reserves, Operations and EH&S Committee

⁽⁴⁾ Reserves, Operations and EH&S Committee

corporate governance

Good Governance Equates to Sound Business

To ensure the interests of unitholders and investors are represented and protected, Provident's Board of Directors (the Board) has adopted the following governance guidelines and practices.

Board Composition

Separation of the Chairman and Chief Executive Officer (CEO)

To provide for effective oversight of management, the positions of chairman and CEO are mutually exclusive. Provident's chairman is independent of management and a member of the Board Governance, Human Resources and Compensation Committee.

Election of Directors

Directors are elected each year by unitholders at the annual general meeting. The Board proposes a slate of nominees to unitholders for election based on its determination as to the suitability of each director. The Board's Governance, Human Resources and Compensation Committee is responsible for assessing the appropriate mix of skills and characteristics required of board members, and recruiting and nominating new board members. Between annual unitholder meetings, the Board may appoint directors to serve until the next annual meeting.

Director Independence

The Board believes it should be comprised of a substantial majority of independent directors. Currently, Provident's Board is comprised of 10 directors, eight of whom are independent. The Board believes it is at an appropriate size based on Provident's present business size and scope.

Director Compensation Review

Compensation for independent directors is reviewed annually and determined by the Board on the recommendation of the Governance, Human Resources and Compensation Committee. Recommendations are guided by such factors as the size and scope of Provident's business, director's responsibilities, market practice and the ability to attract and retain highly-qualified directors. In addition, director

compensation is set to align directors' interests with the long-term interests of unitholders. Management directors do not receive compensation for board duties.

Board Meetings and Materials

Frequency of Board Meetings

Typically, regular meetings of the Board are held quarterly to review financial and operational results and on a monthly basis to set the amount of the cash distribution; however, the Board meets as frequently as necessary for directors to properly discharge their duties.

Frequency of Committee Meetings

The frequency of committee meetings is set forth in each Committee's Terms of Reference. Typically, committees meet at least once per quarter. Additional committee meetings are held as frequently as necessary for directors to properly discharge their duties.

Meeting Attendance and Preparedness

Directors are expected to make every effort to attend each board meeting and each meeting of any committee on which they serve. Attendance by teleconference is permitted, if necessary. Directors have a responsibility to review the agenda and the materials provided for their review in advance of each board and committee meeting.

In-Camera Session of Independent Directors

It is regular practice for independent directors to meet, without the presence of management or management directors, during in-camera sessions in connection with most board and committee meetings.

Access to Management and Independent Advisors

Directors are provided full and complete access to Provident's management, subject to reasonable efforts to avoid disruption to Provident's management, business and operations. The Board has the right to consult and retain independent legal and other advisors at the expense of Provident as required.

Self-Evaluation of the Board

The Board conducts a self-evaluation annually to determine whether it and its committees are functioning effectively. The chairman of the Board oversees this review. The objective of the self-evaluation is to increase the effectiveness and value of the Board to Provident through the consideration of, among other things, improved and alternative board structures, organization or processes.

Director Orientation and Education

Provident hosts orientation sessions to educate new directors on Provident's business, operations, personnel, culture and philosophy. Director education is on going. Issue related materials are regularly sent to directors and briefings are held in conjunction with regularly scheduled board meetings or as needed.

Board Committees

The Board currently has three committees – an Audit Committee; a Reserves, Operations and Environmental, Health and Safety Committee; and a Governance, Human Resources and Compensation Committee. All members of the three committees are independent directors. The Board may add new committees or remove existing committees as it deems advisable in the fulfillment of its responsibilities. Each committee performs its duties as assigned by the Board according to the Committee's Terms of Reference, a full outline of which may be found on Provident's website at www.providentenergy.com.

Committee duties are described briefly below:

- The Audit Committee assists the Board in its oversight of the integrity of financial and related information including financial statements, internal controls and procedures for financial reporting, processes for monitoring compliance with legal and regulatory requirements, and review of the independence, qualifications and performance of Provident's external auditor.
- The Governance, Human Resources and Compensation Committee assists the Board in its oversight of corporate governance practices and policies, human resource, and compensation matters in respect of Provident's employees, officers and directors. This committee is also responsible for setting management objectives, assessing senior management performance, evaluating new and current directors, and making recommendations to the Board of individuals to be nominated as directors.
- The Reserves, Operations and Environmental, Health and Safety Committee assists the Board in its oversight of the oil and natural gas reserves evaluation process and the public disclosure of reserves data and related information as required by National Instrument 51-101; the operations of Provident, including operating activities, operating expenses, and capital expenditures budget; and the environmental, health and safety issues, including the evaluation of Provident's programs, controls and reporting systems, and compliance with applicable laws, rules and regulations.

Management and Board Review and Responsibility

Executive Evaluation and Compensation

The independent directors perform a formal evaluation of the CEO and president's performance against annual goals and objectives established by the Board. In addition to reviewing succession plans, the Board approves the annual and incentive compensation of the CEO, president and senior executive team.

Strategic Planning and Performance Review

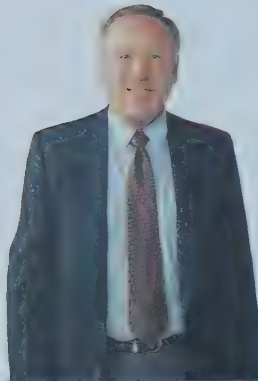
The Board participates in annual strategic planning sessions and approves long-term strategic plans and near-term corporate objectives for Provident. Regular meetings are held by the Board to assess Provident's performance against specific goals and objectives.

Code of Conduct, Whistleblower Policy, Disclosure Policy

Provident strives to conduct its business with the highest ethical and legal standards and in a manner that is fiscally, socially and environmentally responsible. Provident's Code of Conduct, Whistleblower Policy and Disclosure Policy set forth guidelines and protocols for how employees, officers and directors should conduct themselves. The policy encompasses provisions required by the rules under the Sarbanes-Oxley Act of 2002 applicable to the CEO and senior financial officer. The Board, through the Governance, Human Resources and Compensation Committee, oversees compliance with the policy and will amend the policy as required. The full text of this document is available on Provident's website at www.providentenergy.com



Garry D. Dlouhy
Senior Manager
Redwater Operations



David B. Jenner, CGA
Senior Manager
Commodity Management



Barry W.J. Jessup, P. Eng.
Senior Manager
Business Development

operations overview

What drives our performance?

➤ Provident's Oil and Natural Gas Production (OGP) unit produces cash flow from the production and sale of natural gas, light/medium oil, natural gas liquids (NGLs) and heavy oil to energy marketers. The Midstream Services unit generates cash flow by providing fee-based services including extraction, transportation, fractionation, storage, distribution and marketing of NGLs to petroleum producers and refiners, petrochemical companies, and marketing firms.



The OGP value chain:

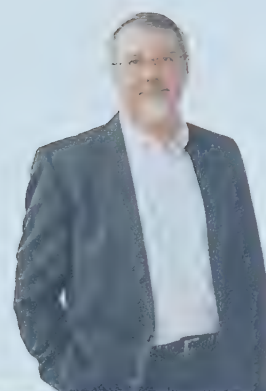
- Acquires mineral rights and access to land
- Performs geological and engineering evaluations to optimize production and determine drilling locations
- Operates production facilities
- Sells product to energy marketers



Breton J. Smith
Senior Manager
Gas Supply and Business Development



Michael G. Stiles, MBA
Senior Manager
Financial Optimization



Gordon B.J. Zaharik, P. Land
Senior Manager
Land and Contracts



Provident generates cash flow from multiple points along the energy value chain.



Midstream Services value chain:

- Operates NGL transportation pipelines, and extraction, fractionation, storage, rail and truck loading facilities
- Provides NGL services such as extraction, transportation, fractionation, storage and distribution
- Markets NGL finished products

Shared Services value chain:

- Administers EH&S and regulatory programs
- Manages integrated risk management program
- Purchases and sells properties and assets
- Develops corporate strategy and performance evaluation systems

What is Midstream?

Midstream is the industry term for the extraction, transportation, fractionation, storage, marketing and distribution of petroleum products. It encompasses, broadly, the value-chain activities and assets between the wellhead and product consumers (see value chain diagram – right).

Provident's midstream assets are an integrated system, delivering benefits to customers and to Provident.

What are NGLs?

When natural gas is produced, it requires processing to remove certain hydrocarbons and impurities, and to separate out the natural gas liquids (NGLs), including ethane (C₂), propane (C₃), butane (C₄), and condensate (C₅). NGLs have a higher value when separated from the natural gas stream and are sold to customers including petrochemical companies, petroleum refiners, heavy oil producers, and NGL distributors. NGLs processed by Provident's Midstream Services include:

- C₂ – ethane – used by the petrochemical industry for the manufacture of ethylene.
- C₃ – propane – used in a number of applications, including residential heating, crop drying, automotive fuels and for petrochemicals.
- C₄ – butane – most butane processed at Redwater is sold to refiners for blending into gasoline.
- C₅ – condensate – diluent blended with heavy oil.

midstream

services

Overview

Our focus has always been – and will continue to be – upon executing transactions that are accretive to unitholders and value enhancing over the long-term. In our 2002 annual report, we highlighted the potential that Provident would extend its business model into related energy businesses. In 2003, we did just that with the acquisition of the Redwater Natural Gas Liquids (NGL) Processing System. The acquisition extended Provident's economic life and was accretive to per unit cash flow and net asset value.

The addition of the long-life NGL infrastructure assets and Provident's entrance into the midstream services business adds a new dimension to the Trust – one with minimal on-going capital requirements. Provident's Midstream Services business provides for less exposure to commodity price risk, more stable cash flow and distributions, and expanded opportunity for growth along the energy value chain.

World Class Assets

Provident's Redwater NGL Processing System is the most modern and lowest-operating-cost system of its kind. Located in one of the four main North American NGL hubs, Redwater accounts for 30 percent of the NGL fractionation capacity in Western Canada and is an important asset in the future of the country's oil and natural gas business. The long-life nature of the midstream assets, combined with the longer-term, fee-based and fixed margin contractual arrangements, make the midstream business an ideal investment for an energy trust. The integrated Redwater system is comprised of three core assets:

- 100-percent ownership of the Redwater NGL Fractionation Facility, a 65,000 barrels per day (bbls/d) fractionation, storage and transportation facility located near Edmonton. The facility boasts 12 pipeline receipt and delivery points; the largest rail rack in Western Canada with access to CN and CP rail; two propane truck loading facilities; and five million barrels of salt-cavern storage. Redwater can process high-sulphur NGL streams and is one of only two facilities in Western Canada capable of processing ethane-plus.

- 43.3-percent ownership of the 38,500 bbls/d Younger NGL Extraction Plant located at Taylor in northeastern British Columbia (B.C.) – NGLs are supplied to Provident under long-term, dedicated supply contracts from the McMahon and West Stoddart processing plants.
- 100-percent ownership of the 565 kilometre (km) proprietary Liquids Gathering System (LGS) that runs along the Alberta - B.C. border beginning in Northeast B.C. In addition to the Younger plant, the pipeline is connected to some of the more significant natural gas plants in Western Canada that produce liquids. It also accesses areas including Ring Border, Chinchaga, Boundary Lake, Gordondale, Hamburg, Tanghe Creek, Stoddart, Taylor and LaGlance that are highly active for liquids-rich natural gas exploration and production. Provident also has long-term shipping rights on the Pembina Peace Pipeline, which extends the Trust's transportation network through to the Redwater Fractionation Facility.

NGL Extraction

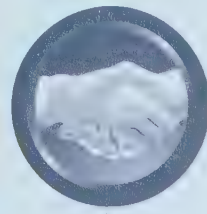
At the Younger Extraction Plant, NGLs are extracted from the raw natural gas gathered.

Fractionation

At the Redwater Fractionation Facility, NGLs are separated into finished components of ethane, propane, butane and condensate.

Distribution

At the Redwater Fractionation Facility, finished NGL components are loaded and transported to markets by pipeline, truck or rail.



Transportation

The LGS Pipeline gathers NGLs from the Younger plant and third-party locations for additional processing at the Redwater Fractionation Facility.

Underground Storage

At the Redwater Fractionation Facility, finished NGL components are stored in eight salt caverns.

Marketing

Midstream Services provides bundled and customized services such as extraction and fractionation services, storage, transport, distribution and NGL product sales.

What is extraction?

Extraction is the process to remove NGL mix from a natural gas stream. A cryogenic turbo-expander operating near minus 50 degrees celcius recovers 80 percent of contained ethane and 100 percent of propane-plus material.

What is fractionation?

Fractionation distills NGL mix into its pure hydrocarbon components: ethane, propane, butane, and condensate. Condensate, typically a mix of pentanes and heavier fractions, is the equivalent of a light, transparent crude oil.

What are storage caverns?

Below-ground storage for NGLs is typically less expensive and safer than above-ground. Caverns are "washed" (made) by drilling into a high-quality salt formation of the type found at Redwater, and then circulating a precisely-controlled stream of fresh water to dissolve the salt. The caverns at Redwater are located 1.8 km below the surface.

What is frac-spread?

Frac-spread is the price difference measured in energy units between equivalent amounts of natural gas and NGLs.

Operating Approach

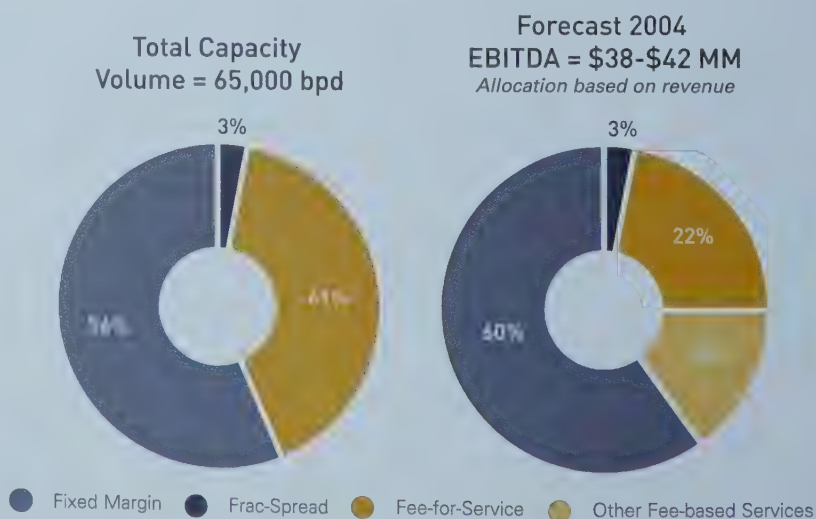
Provident Midstream Services' customers include petroleum producers, marketers, petrochemical companies, and NGL distributors. Given our network of physical assets, access to key markets and NGL business expertise, Provident offers customers a broad array of products and service options on a contract-for-service basis. Our integrated services and contracting flexibility differentiate Provident in the NGL industry in Canada where producers typically must sell their NGLs to liquids processors and marketers.

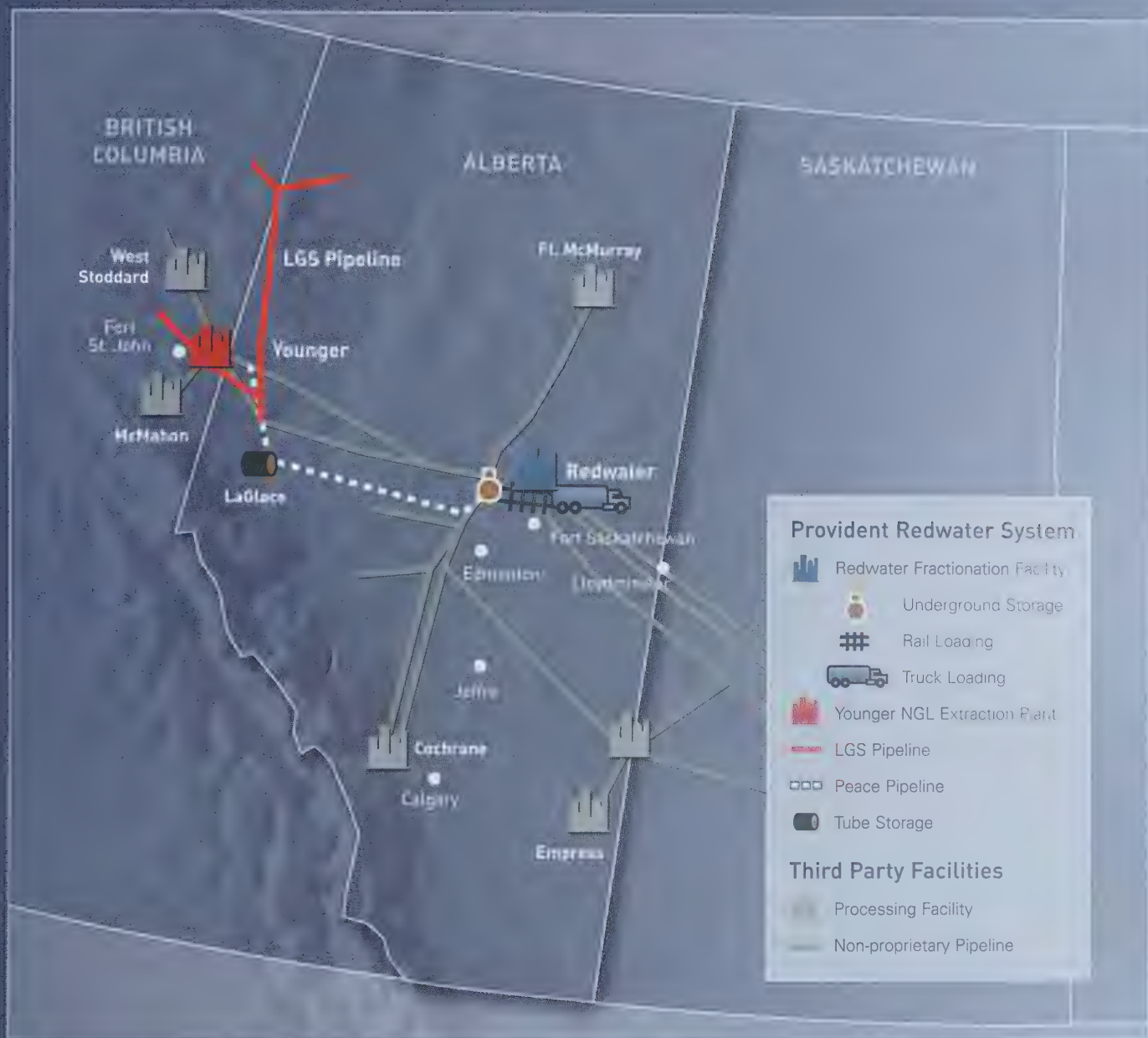
Provident offers customers several types of services and contractual arrangements including:

- **Fee-for-service:** NGL owners pay fees for the extraction, transportation, fractionation, storage and distribution of their NGL barrels.
- **Fixed margin:** Provident extracts a margin from NGL owners for extraction, transportation, fractionation, storage, marketing and distribution of NGLs. Provident takes ownership of barrels.
- **Storage:** NGL owners pay fees to store their NGLs.
- **Transport and Distribution:** NGL owners pay fees to transport NGLs through the LGS pipeline and use rail and truck loading facilities to distribute finished products.

Stable Long-Term Contracts

Approximately 97 percent of the available capacity on the Redwater system is contracted through fee-for-service and fixed-margin contracts with major oil and natural gas producers and petrochemical businesses. These contracts account for 97 percent of Midstream Services total revenue. As a result of these contracts, 67 percent of Redwater's system output is contracted for 10 years or longer.





Growth Opportunities

The increased focus on natural gas exploration and production in Northwestern Alberta and Northeastern B.C., combined with the feedstock requirements of Alberta's petrochemical industry, have created a robust market for an array of NGL products and services. Provident's NGL processing assets are well positioned to capitalize upon customer driven opportunities. Incremental midstream facilities and services added by Provident will be supported by long-term contracts and will add to unitholder value.

oil and natural gas

production

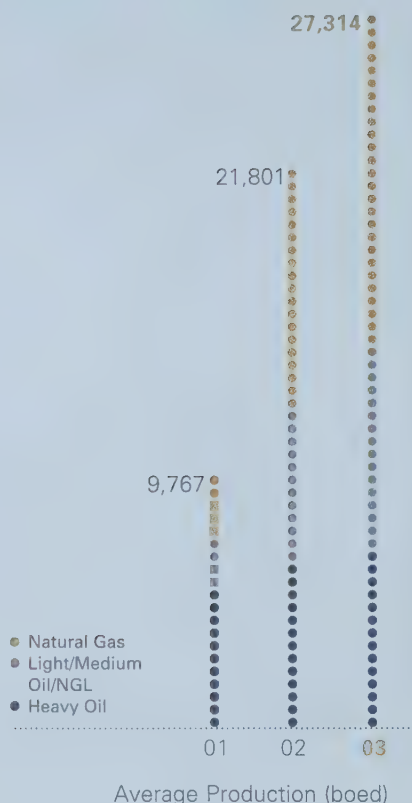
Operating Approach

Provident manages a portfolio of natural gas and oil producing assets that are well balanced in both geographic location and commodity mix. Provident is able to maximize value from its oil and natural gas production investments because it maintains a 75 percent average working interest in properties and operates approximately 67 percent of its production. Production is derived from five core regions: West Central Alberta; Lloydminster, Alberta/Saskatchewan; Southern Alberta; Southwest Saskatchewan and Southeast Saskatchewan. And within Provident's production portfolio, no single property exceeds 10 percent of daily production.

Significant production and reserve additions are made through corporate or property acquisitions. To offset the natural declines from petroleum and natural gas reservoirs, Provident executes a three-pronged approach to replenish production, which includes low-risk development, halo acquisitions around core properties, and farm-outs of higher-risk opportunities.

Since converting to a trust, Provident has high graded the quality of natural gas and oil assets in its portfolio – improving both Provident's netback and cash flow stability. In 2001, Provident's exit production was 10,792 boed and was weighted 27 percent to natural gas, 52 percent to heavy oil and 21 percent to light/medium oil and natural gas liquids (NGL). At the end of 2003, primarily due to the execution of two corporate transactions and a major property acquisition in 2002, exit production was 26,193 boed and was a balanced mix of 44 percent natural gas, 27 percent heavy oil and 29 percent light/medium oil and NGLs.

Provident's quality of reserves also has improved. Total proved reserves as a percentage of total reserves increased from 70 percent at year-end 2001 to 76 percent at year-end 2003. Similarly, proved developed producing reserves as a percentage of total proved reserves increased from 76 percent to 85 percent over the same period. And just as Provident's production mix has diversified since conversion, Provident has achieved greater natural gas and light/medium oil weighting of its proved plus probable reserves. For 2001, reported reserves were 48 percent natural gas, 30 percent heavy oil, and 22 percent light/medium oil and NGLs. Year-end 2003, the balance was 46 percent natural gas, 22 percent heavy oil and 32 percent light/medium oil and NGLs.



Average Production (boed)



Cash Flow (\$MM)



Asset Portfolio

	West Central Alberta	Lloyd. Alberta	Southern Alberta	S.W. Sask.	S.E. Sask.	Other	Total
2003 daily average production (boed)	10,277	7,311	5,950	1,722	2,039	15	27,314
2003 exit production (boed)	9,590	7,540	5,500	1,600	1,960	-	26,190
Percent natural gas	76%	6%	61%	29%	2%	81%	46%
Percent light/medium crude and NGLs	24%	-	39%	71%	98%	19%	29%
Percent heavy oil	-	94%	-	-	-	-	25%
Proved reserves (mmboe)	18.8	7.8	8.3	2.9	4.1	0.1	41.9
Proved reserve life index (years)	5.6	2.8	4.9	4.3	6.3	2.2	5.2
Proved + Probable							
Additional reserves (mmboe)	22.5	12.2	11.3	3.4	5.4	0.1	54.9
Proved + Probable							
Additional reserve life index (years)	6.5	3.3	6.4	4.9	8.1	2.5	6.6
Operating costs (\$/boe)	\$6.91	\$8.02	\$8.59	\$7.42	\$7.48	-	\$7.66
Field netback (\$/boe) (excludes hedges)	\$24.31	\$12.82	\$22.00	\$18.61	\$20.88	-	\$20.10
Net undeveloped land (000s acres)	90	48	92	68	9	20	327

What are the different types of crude oil?

Crude oil is a mixture of hydrocarbons, yellow-to-black in colour, commonly referred to as light, medium or heavy crude oil.

Light crude oil has an American Petroleum Institute (API) gravity of greater than 40 API degrees. It is light in colour and flows like water. Light crude also has a high evaporation rate and is usually flammable. Light crude oil is an ideal feedstock for a refinery to produce aviation fuel and gasoline.

Medium crude is denser than light crude oil, with an API gravity from 20 to 40 API degrees. It does not flow as easily as light crude oil. Medium crude is used to create diesel, heating oil and residual fuel oil.

Heavy crude has an API gravity of less than 20 API degrees. It is dark or black and flows like molasses. The main derivative of heavy crude is asphalt used in road paving.

2003 Operations Overview

In 2003, Provident's production volumes averaged 27,314 boed and was a balanced mix consisting of 46 percent natural gas, 29 percent light/medium oil and NGLs, and 25 percent heavy oil.

Operating costs for the year averaged \$7.66 per boe compared to \$6.63 per boe in 2002. An increase in operating costs was realized across the Canadian oil and natural gas sector primarily due to higher costs associated with increased processing fees, and fuel and power costs. While Provident has a number of optimization and cost measures in place, operating costs are expected to remain above \$7.50 in 2004.

Provident's field netbacks, excluding hedges, increased to \$20.10 per boe in 2003 from \$15.90 per boe in 2002. Since 2001 Provident has actively farmed out its high risk, undeveloped lands. The result of this work began to make an impact in 2003. Provident generated \$3.5 million cash from farm-out revenue and related processing fees. Provident will continue to actively farm-out undeveloped, high risk lands that do not meet Provident's risk tolerance.

In 2003, Provident realized a 95 percent success rate on internal drilling activities, replacing 3,200 boed of production from wells drilled in the Lloydminster and Southern Alberta regions. Capital expenditures for the year totalled \$28 million before office related expenses and aquisition and divestitures (A&D) activity, of which \$15.2 million was spent on low-risk development drilling activities, \$10.2 million on facilities, \$2.0 million on land acquisitions and retention, and \$0.6 million on seismic evaluation.

Since 2001, Provident has added more than 29,600 boed through acquisitions at an average three-year finding, development and acquisition (FD&A) cost of \$12.77 per boe. While no major oil and gas acquisitions were executed in 2003, significant technical work was completed on properties acquired in 2002. As a result, Provident has identified \$46 million in exploitation and development opportunities it intends to pursue in 2004 that have the potential to add greater cash flow and distribution stability.

In 2004, internal development will play a more important role in Provident's operating approach than in past years. Provident intends to spend approximately 50 percent of its capital budget to drill shallow natural gas wells in Southern Alberta and Southwest Saskatchewan, as well as invest in additional seismic evaluation, land and facilities. The shallow natural gas locations targeted by Provident are already served by pipelines or processing plants which make tie-in economics of new

production highly favourable. Oil related capital expenditures in 2004 will represent approximately 17 percent of the capital program and will target Lloydminster and Southern Alberta. Provident plans to drill several wells at Lloydminster and will implement various production optimization measures and installation of facilities aimed at lowering operating costs. In West Central Alberta, Provident will focus on operating cost reduction and production enhancement projects.

Excluding potential acquisitions and farm-outs, production in 2004 is estimated to average 24,300 boed, balanced 45 percent to natural gas, 28 percent to light/medium oil and NGLs, and 27 percent to heavy oil.

Regional Breakdown

Provident's natural gas and NGL production is derived primarily from its West Central Alberta, Southern Alberta and Southwest Saskatchewan properties. Light/medium oil and heavy crude oil are produced primarily from Southeast Saskatchewan and Lloydminster, respectively.

The core operating area of **West Central Alberta** accounted for approximately 38 percent of Provident's 2003 production and is Provident's largest production area. The strength of the West Central Alberta region lies in its liquids-rich, long-life natural gas reserves and high-quality light crude oil.

In fourth quarter 2003, West Central Alberta production included 43,308 mcf (7,218 boed) of natural gas and 2,376 boed of light/medium oil. In 2003, Provident spent \$5.3 million in the region, including \$0.9 million on drilling related expenditures, \$0.5 million on workovers, \$3.5 million on optimization projects, and \$0.4 million on land and seismic activities. Operating costs in this area averaged \$6.91 per boe in 2003.

In 2004, production is expected to average 37,800 mcf (6,300 boed) natural gas and 2,000 boed light/medium oil. With total production anticipated to be 8,300 boed, West Central Alberta will remain Provident's top-producing region. Capital expenditures are budgeted at approximately \$11.0 million, of which \$9.2 million will relate to non-operated activities and \$1.8 million on internal projects and related items.

The **Lloydminster** region accounted for approximately 27 percent of Provident's 2003 production. Fourth-quarter production was 7,152 boed of heavy oil and 2,310 mcf (385 boed) of natural gas. Regarded as the heavy oil capital of the world, Lloydminster has been a core operating region for Provident since 2001, given its low-risk development and stable production profile.

What is API Gravity?

API (American Petroleum Institute) gravity is a standard for expressing the density of liquid petroleum products. The higher the API gravity, the lighter the crude oil. Water has an API gravity of 10 API degrees.

What is shallow gas?

Natural gas produced from formations within 3,000 feet (900 metres) of the earth's surface is considered shallow. Provident's shallow gas fields are approximately 1,000 feet (300 metres) to 2,000 feet (600 metres) below the surface.

What is Reserve Life Index (RLI)?

RLI is commonly used to represent the longevity of reserves and is determined by dividing the reserves base by the current annual production rate. The result is the number of years that the reserve base could continue to produce at current production rates. Production however, typically declines over time and accordingly the actual economic life of a well will likely be significantly longer than the stated RLI.

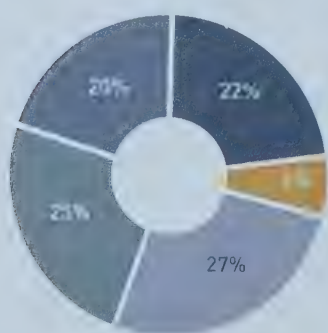
Provident posted very strong results on its \$12.2 million development program at Lloydminster, achieving low-risk, flat-profile production additions at approximately one-third the cost of industry crude oil acquisitions in 2003. On-stream costs at Lloydminster averaged \$8,800 per flowing barrel of reserves. Provident's Lloydminster heavy oil development program produced an incremental 2,650 boed, representing 85 percent of Provident's replacement production in 2003. Operating costs for heavy oil averaged \$8.02 per boe in 2003.

Provident continues to apply technical and operating expertise to its heavy oil properties. Capital expenditures are targeted at adding inexpensive production or reducing operating costs to maximize netbacks. In 2004, Provident will allocate \$9.4 million of capital to development and optimization activities in the Lloydminster region, \$5.5 million of this amount will be spent on low-risk drilling opportunities, \$2.5 million on land acquisition and seismic evaluation, and \$1.4 million on workovers and related items. Annual production is expected to be approximately 6,440 boed of heavy oil and 1,900 mcf/d (300 boed) of natural gas.

The **Southern Alberta** region accounted for approximately 22 percent of 2003 average production. The region consists of 12 operated and non-operated properties that were acquired in three separate transactions in 2002. In the fourth quarter of 2003 natural gas production averaged 19,947 mcf/d (3,325 boed), while light/medium oil and NGLs were 2,176 boed. Provident spent \$6.6 million in 2003, including \$2.6 million for drilling and \$3.2 million on recompletion and optimization. Provident added an incremental 550 boed of light/medium oil production in Southern Alberta through internal development efforts in 2003. On stream costs were \$12,000 per boe flowing. Operating costs in this area averaged \$8.59 per boe.

In 2004, Provident intends to spend approximately \$10 million in the Southern Alberta region, primarily on shallow natural gas-related opportunities. Provident expects to spend \$6.3 million on drilling-related activities and the balance on facilities, land and seismic evaluation. Production is expected to average 19,800 mcf/d (3,300 boed) of natural gas and 2,200 boed of light/medium oil and NGLs for 2004.

**2004 OGP Capital
Budget by Region**
(2004 Total Capital Budget - \$46 million)



- Lloydminster
- Southern Alberta
- Southeast Saskatchewan
- Southwest Saskatchewan
- West Central Alberta

Southwest Saskatchewan accounted for approximately 6 percent of Provident's 2003 production. The region was added to Provident's core operating areas following the acquisition of Meota Resources Corp. in 2002.

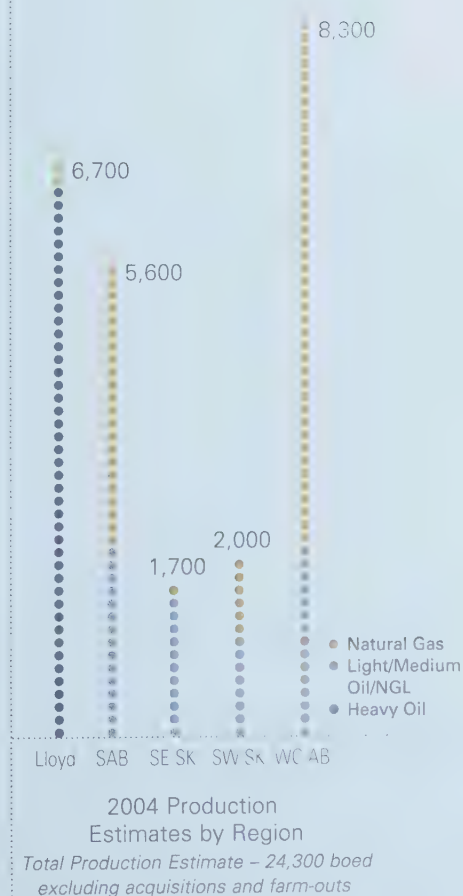
Fourth quarter production included 1,118 boed of light/medium oil and NGLs and 2,902 mcf (484 boed) of natural gas. Production in this core area has lower declines in the predominantly shallow natural-gas formations. In 2003, Provident spent \$1.5 million in the region, including drilling-related activities, facilities, land acquisition and retention, and seismic evaluation. Operating costs in the area averaged \$7.42 per boe.

Due to Southwest Saskatchewan's significant low-risk infill drilling and shallow natural gas development potential, Provident intends to spend approximately \$12 million, 27 percent of its capital budget, on shallow gas development in 2004. The region's 2004 shallow gas capital program includes \$9.5 million on drilling and the remainder on land acquisition and seismic evaluation. 2004 production is expected to average approximately 2,000 boed, including 6,000 mcf (1,000 boed) of natural gas and 1,000 boed of light/medium oil and NGLs.

Provident's **Southeast Saskatchewan** region accounted for approximately 7 percent of 2003 production. Located on the northern edge of the Williston Basin, Provident's high working interests in this region contribute stable, light/medium oil production.

Fourth-quarter 2003 production averaged 1,961 boed. Annual operating costs averaged \$7.48 per boe. In 2003, Provident spent \$2.3 million in the region, approximately 50 percent of which was spent on drilling-related activities and the remainder on workovers and facilities.

Production is expected to average 1,600 boed in 2004. Provident intends to spend approximately \$2.8 million on capital projects, including \$1.8 million to be spent on drilling prospects.



oil and natural gas reserves

Provident's oil and natural gas reserves as of January 1, 2004 were evaluated or reviewed by McDaniel and Associates (McDaniel). McDaniel evaluated the properties that comprise approximately 75 percent of the value of Provident with the properties making up the remaining 25 percent evaluated by qualified Provident staff and ultimately signed-off by McDaniel. McDaniel has evaluated Provident's reserves the last three years.

The evaluation report used the McDaniel's price forecast at January 1, 2004 and is prepared in accordance with new disclosure standards as mandated by the Canadian Securities Administrators' National Instrument 51-101 (NI 51-101) Standards of Disclosure for Oil and Gas Activities. NI 51-101 establishes prescribed disclosures regarding oil and natural gas information, replacing National Policy 2B (NP 2B). NI 51-101 enhances current corporate governance measures by mandating the involvement of independent reserves evaluators in the preparation of reserves data and assigning responsibility for the content of reserves data directly to management and the board of directors.

Under NI 51-101, proved reserves are defined as having a high degree of certainty to be recoverable and probable reserves are defined as those reserves that are less certain to be recovered than proved reserves. The targeted levels of certainty, in aggregate, are at least 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves and at least a 50 percent probability that the quantities recovered will equal or exceed the sum of the estimated proved plus probable reserves. The most significant aspect of the transition to reporting under NI 51-101 standards is the definition of proved plus probable as a "best estimate" of future recoverable reserves. It has been generally accepted by the oil and natural gas industry that the proved plus probable category under NI 51-101 is comparable to prior years' established reserves. Under NP 2B Provident believed its January 1, 2003 established reserves represented a conservative "best estimate" of the remaining reserves at that time.

Under McDaniel's NI 51-101 evaluation Provident had minimal revisions to its reserves on a company interest basis – an indication of the quality and predictability of Provident's reserves. Before accounting for production, proved plus probable reserves were flat when compared to established reserves on January 1, 2003; as were year over year comparisons of proved developed producing reserves. The proved plus probable category was revised upward by 1.0 percent while the proved developed producing reserve had a downward revision of 1.5 percent overall. The total proved category was revised downward by 5.6 percent primarily as a result of competitive drainage at the Brazeau and Gilby natural gas fields. Provident realized a 3.0 percent increase in its proved developed producing reserves as a percent of total proved reserves from 82 percent at year end 2002 to 85 percent at year end 2003. Production in 2003 totaled 9,970 Mboe and along with additions and revisions, resulted in a proved plus probable opening balance at January 1, 2004 of 54,894 Mboe compared to 64,501 Mboe on January 1, 2003.

The results of McDaniel's evaluation are summarized in the tables below.

The following reconciliation summarizes Provident's reserve activity for the year ended December 31, 2003, on both a company working interest and net interest after royalties:

Proved Developed Producing Reserves	Light & Medium	Heavy	Total			
	Crude Oil	Crude Oil	Crude Oil	Gas	NGL	BOE
Company Share (WI +RI) ^{(a),(d)}	Mbbl	Mbbl	Mbbl	MMcf	Mbbl	Mboe
Balance at January 1, 2003	13,991.7	4,899.3	18,891.0	146,042.0	2,175.0	45,406.0
Production	(2,486.2)	(2,519.2)	(5,005.4)	(27,227.6)	(426.2)	(9,969.5)
Acquisition	—	—	—	4.1	0.3	1.0
Divestiture	(156.8)	—	(156.8)	(792.6)	(7.1)	(296.0)
Exploration Discoveries	—	—	—	—	—	—
Drilling Extensions	77.8	773.1	850.9	1,022.6	4.1	1,025.4
Infill Drilling	—	—	—	—	—	—
Improved Recovery	—	—	—	—	—	—
Economic Factors	(73.6)	(115.8)	(189.5)	142.2	0.7	(165.1)
Technical Revisions	(158.1)	900.0	741.9	(10,171.6)	416.7	(5,867.1)
Balance at January 1, 2004	11,194.8	3,937.4	15,132.1	109,019.1	2,163.5	35,465.5
Net Share (WI) ^(b)						
Balance at January 1, 2004	9,544.5	3,372.1	12,916.6	87,810.1	1,657.5	29,209

Total Proved Reserves	Light & Medium	Heavy	Total			
	Crude Oil	Crude Oil	Crude Oil	Gas	NGL	BOE
Company Share (WI +RI) ^{(a),(d)}	Mbbl	Mbbl	Mbbl	MMcf	Mbbl	Mboe
Balance at January 1, 2003	15,261.2	9,249.8	24,511.0	169,470.0	2,390.0	55,146.0
Production	(2,486.2)	(2,519.2)	(5,005.4)	(27,227.6)	(426.2)	(9,969.5)
Acquisition	—	—	—	4.1	0.3	1.0
Divestiture	(201.2)	—	(201.2)	(6,241.4)	(67.1)	(1,308.5)
Exploration Discoveries	—	—	—	—	—	—
Drilling Extensions	77.8	773.1	850.9	1,390.3	4.1	1,086.8
Infill Drilling	—	—	—	—	—	—
Improved Recovery	—	—	—	—	—	—
Economic Factors	(73.2)	(138.9)	(212.0)	134.2	0.7	(188.9)
Technical Revisions	(806.1)	108.4	(697.8)	(15,436.2)	371.3	(2,899.2)
Balance at January 1, 2004	11,772.3	7,473.2	19,245.5	122,093.4	2,273.2	41,440.2
Net Share (WI) ^(b)						
Balance at January 1, 2004	10,280.0	6,557.4	16,837.4	98,227.9	1,745.0	34,701

(a) Company share includes working interest (WI) and royalty interests (RI)

(b) Net share includes the Companies working interests only (WI), and excludes volumes associated with royalties paid to others

(c) Proved plus probable reserves at January 1, 2003 represent the Company's established reserves from its January 1, 2003 report

(d) Tables may not add due to rounding.

Total Proved Plus Probable Reserves^(c)	Light & Medium Crude Oil Mbbl	Heavy Crude Oil Mbbl	Total Crude Oil Mbbl	Gas MMcf	NGL Mbbl	BOE Mboe
Company Share (WI + RI) ^{(a)(d)}						
Balance at January 1, 2003	17,488.7	12,252.3	29,741.0	192,129.5	2,738.5	64,501.1
Production	(2,486.2)	(2,519.2)	(5,005.4)	(27,227.6)	(426.2)	(9,969.5)
Acquisition	—	—	—	4.1	0.3	1.0
Divestiture	(255.3)	—	(255.3)	(7,313.9)	(76.9)	(1,551.2)
Exploration Discoveries	—	—	—	—	—	—
Drilling Extensions	96.5	898.9	995.0	1,612.7	5.2	1,269.0
Infill Drilling	—	—	—	—	—	—
Improved Recovery	—	—	—	—	—	—
Economic Factors	25.8	(232.7)	(206.8)	165.2	8.1	(171.2)
Technical Revisions	100.8	1,476.6	1,577.4	(7,978.4)	566.7	814.3
Balance at January 1, 2004	14,970.3	11,875.6	26,845.9	151,391.6	2,815.7	54,893.5
Net Share (WI)						
Balance at January 1, 2004	12,746.7	10,520.3	23,267.0	122,164.4	2,166.5	45,794.2

(a) Company share includes working interest (WI) and royalty interests (RI)

(b) Net share includes the Companies working interests only (WI), and excludes volumes associated with royalties paid to others.

(c) Proved plus probable reserves at January 1, 2003 represent the Company's established reserves from its January 1, 2003 report.

(d) Tables may not add due to rounding.

Provident's oil and natural gas reserves and present value of estimated future cash flows based on forecast (escalated) price assumptions are summarized below.

Reserves Summary^(b)	Gross Reserves						Net Reserves					
	Light & Medium	Heavy	Total	Natural			Light & Medium	Heavy	Total	Natural		
	Crude Oil	Crude Oil	Crude Oil	NGLs	Gas	Boe	Crude Oil	Crude Oil	Crude Oil	NGLs	Gas	Boe
	(mbbls)	(mbbls)	(mbbls)	(mbbls)	(bcf)	(mboe)	(mbbls)	(mbbls)	(mbbls)	(mbbls)	(bcf)	(mboe)
Proved Reserves												
Producing	11,195	3,937	15,132	2,164	109.0	35,466	9,544	3,372	12,917	1,658	87.8	29,209
Non-Producing	228	507	736	62	10.9	2,610	187.0	439	626	48	8.6	2,113
Undeveloped	349	3,028	3,378	48	2.2	3,792	297	2,746	3,043	39	1.8	3,380
Total Proved	11,772	7,473	19,246	2,273	122.1	41,868	10,028	6,557	16,585	1,745	98.2	34,702
Probable	3,198	4,402	7,600	543	29.3	13,026	2,719	3,963	6,682	422	24.0	11,093
Total Proved plus Probable	14,970	11,876	26,846	2,816	151.4	54,894	12,747	10,520	23,267	2,167	122.2	45,794

Present Value of Reserves^(b)

(000's)	Present Worth Value Discounted at				
	0 %	8 %	10 %	15 %	20 %
Proved Reserves					
Producing	\$ 439,909	\$ 338,189	\$ 322,335	\$ 289,979	\$ 264,991
Non-Producing	9,601	9,051	8,762	8,028	7,345
Undeveloped	20,002	13,389	12,157	9,562	7,501
Total Proved	469,511	360,629	343,255	307,589	279,896
Probable	150,372	83,763	75,167	59,301	49,444
Total Proved plus Probable	\$ 619,883	\$ 444,392	\$ 418,422	\$ 366,890	\$ 328,339

(a) Present values include the effects of hedging

(b) Tables may not add due to rounding

The following table summarizes the McDaniel's price forecast used in evaluating Provident's reserves under the escalated pricing assumptions:

Reserves Pricing Summary	WTI @				Average
	Cushing				Alberta
	Light, Sweet				Natural
	@ Edmonton				Gas Price
	US\$/Cdn\$ Exchange Rate	US\$/bbl	Cdn\$/bbl	Heavy Oil @ Hardisty Cdn\$/bbl	Cdn\$/mmbtu
2004	0.75	29.00	37.70	22.70	5.65
2005	0.75	26.50	34.30	21.55	5.30
2006	0.75	25.50	33.00	21.56	4.95
2007	0.75	25.00	32.30	20.63	4.75
2008	0.75	25.00	32.30	20.39	4.60

For subsequent years, prices escalating at 2 percent per year.

National Instrument 51-101

Oil and natural gas reserves estimation and reporting has been governed by NP 2B since the late 1970's. As a result of concern expressed by many market participants over the quality and consistency of oil and natural gas reserves estimates, the Alberta Securities Commission established the Oil and Gas Taskforce in June 1998. The Taskforce, working with the Canadian Institute of Mining, Metallurgy & Petroleum (CIM), and the Calgary chapter of the Society of Petroleum Evaluations Engineers developed recommendations to standardize reserve definitions, as well as the Canadian Oil and Gas Evaluations (COGE) handbooks to provide guidance for engineers and geologists on recommended reserves booking practices. The Canadian Securities Association proposed new standards that govern all aspects of reserves disclosure in the form of NI 51-101.

Reserve definitions

The following outlines the main differences between reserve definitions and evaluation practices between NP 2B and NI 51-101.

Under both sets of guidelines proved reserves are "those reserves that can be estimated with a high degree of certainty to be recoverable." It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. While similar in this respect to NP 2B, NI 51-101 further identifies the targeted certainty level for proved reserves as "at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves."

Probable reserves are "those additional reserves that are less certain to be recovered than proved reserves. It is likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves." NI 51-101 further defines the targeted certainty level as "at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves." As a result the proved plus probable reserves under NI 51-101 represent a "best estimate" of the reserves to be ultimately recovered. Under NP 2B the best estimate of reserves was determined by adding 50 percent of the probable reserves to the proven reserves to allow for the risk associated with these quantities.

Historically under NP 2B, companies were not required to report reserves on a net interest basis. NI 51-101 changes this and requires that companies report and reconcile their reserves on a "net interest" basis, or working interest and royalties receivable, less royalties payable. In the interests of continuity both the company interest and net interest tables are provided.

The individual components of the reserve reconciliation table are outlined below.

Opening Balance: Company or net interest reserves reported in the evaluation being reconciled.

Exploration Discoveries: Additions to reserves where no reserves were previously booked.

Drilling Extensions: Additions to reserves resulting from capital expenditures for step-out drilling in previously discovered reservoirs.

Infill Drilling: Additions to reserves resulting from capital expenditures for infill drilling in previously discovered reservoirs that were not drilled for enhanced recovery schemes and that were not previously included in the initial reserves assignment.

Improved Recovery: Additions to reserves resulting from capital expenditures associated with the installation of enhanced recovery schemes that were not previously included in reserves in that category.

Economic Factors: Changes to reserves between the current and previous reporting periods resulting from different price forecasts, inflation rates, and regulatory changes.

Technical Revisions: Positive or negative reserves revisions to a reserves entity resulting from new technical data or revised interpretations on previously assigned reserves.

Acquisitions and Dispositions: Positive or negative changes to the reserves estimates as a result of purchasing or selling all or a portion of an interest in oil and gas properties.

Production: Reserves reductions due to production during the time period being reconciled.

Closing Balance: Company or net interest reserves assigned at the end of the period being reconciled.

Reserve life index (RLI)

The 2003 year end RLIs were determined by applying the average 2004 production rate from the McDaniel evaluation to the remaining volumes as of January 1, 2004. The proved plus probable RLIs for prior to 2003 are based on established reserves under NP 2B with proved plus probable reserves risked at 50 percent.

As a result of the addition of long-term, stable cash flow from the Midstream Services business, Provident's economic life as a measure of future cash flows has been significantly extended beyond that which is typically measured by the reserve life of Provident's oil and natural gas assets.

The following table illustrates the reserve life index for Provident since its inception as a trust.

Reserve Life Index		December 31,		
Company Share (WI +RI)		2003	2002	2001
Total Crude oil				
Proved Producing		3.6	3.7	4.0
Total Proved		4.6	4.9	6.6
Proved plus Probable ⁽¹⁾		6.4	5.9	8.3
Natural gas liquids				
Proved Producing		5.3	4.8	4.6
Total Proved		5.6	5.2	5.3
Proved plus Probable ⁽¹⁾		6.9	6.0	6.3
Natural gas				
Proved Producing		4.9	5.9	4.8
Total Proved		5.5	6.8	5.6
Proved plus Probable ⁽¹⁾		6.8	7.7	6.7
Oil equivalent (6:1)				
Proved Producing		4.3	4.7	4.3
Total Proved		5.0	5.7	6.3
Proved plus Probable ⁽¹⁾		6.6	6.7	7.8

(1) The proved plus probable RLIs prior to 2003 are based on established reserves under NP 2B with probable reserves risked at 50 percent.

Finding, Development and Acquisition Costs

Under NI 51-101, the methodology to be used to calculate finding and development costs (F&D) implies that F&D and finding, development and acquisition costs (FD&A) include incorporating changes in future development capital (FDC) required to bring the proved undeveloped and probable reserves to production. As previously noted, this year's proved plus probable reserves are compared to prior years established reserves which risked the probable reserves at 50 percent.

Provident had three year average total proved and probable FD&A costs of \$12.77 per boe, including FDC and NI 51-101 revisions. We believe that taking a three-year average of FD&A is the appropriate method in which to look at reserve add costs because it is a better representation of full cycle economics and recognizes the means through which Provident adds to its reserve base.

It is important to recognize that as an energy trust and not an exploration oriented venture, Provident is naturally going to focus capital and other resources on reserve promotes that shift reserves from the non-producing or undeveloped proved and probable categories to the proved producing category. In 2003, as a result of infill drilling, Provident promoted over 1 MMboe of reserves into the proved developed producing category. The capital spent increases FD&A costs, as no new reserves are added; but more importantly reserves in the ground are converted to production and cash flow.

The table below presents F&D and FD&A costs for both proven and proved plus probable reserves. Costs include all costs of exploring for and developing reserves, including land costs. Acquisition costs include the cash cost of acquiring reserves and the fair value of liabilities assumed. Excluded from acquisition costs is the requirement under generally accepted accounting principles to increase the book value of property plant and equipment with an offset to future tax liability when the purchase price paid on an (usually corporate) acquisition exceeds the available tax pools. Goodwill was recorded on the acquisitions as part of the purchase price allocation, and therefore forms part of the costs of acquiring the reserves. NI 51-101 does not specifically define reserve additions and does not contemplate nor define acquisition costs. The following table presents reserve additions both including reserve revisions and excluding reserve revisions. If revisions exclude additions, the resultant negative number has been excluded. In 2003, dispositions of oil and gas reserves exceeded additions, and have also been excluded from the table.

Finding and Development Costs per boe

(includes FDCs)

	2003	2002	Three year average ⁽²⁾
Proven			
Additions	\$ 16.20	\$ 14.39	\$ 19.44
Additions including revisions	— ⁽¹⁾	— ⁽¹⁾	— ⁽¹⁾
Proved plus probable			
Additions	\$ 17.00	\$ 11.01	\$ 17.92
Additions including revisions	\$ 11.28	— ⁽¹⁾	— ⁽¹⁾

Finding, Development and Acquisition Costs per boe

(includes FDCs)

Proven			
Proven excluding revisions	— ⁽¹⁾	\$ 13.95	\$ 12.09
Proven including revisions	— ⁽¹⁾	\$ 15.20	\$ 15.15
Proved plus probable			
Proved plus probable excluding revisions	— ⁽¹⁾	\$ 12.42	\$ 11.58
Proved plus probable including revisions	— ⁽¹⁾	\$ 13.91	\$ 12.77

(1) Revisions exceeded additions or dispositions exceeded acquisition, therefore the calculation is not included in the table

(2) Three year average is the average from the inception of the Trust on March 6, 2001.

integrated risk management

Financial Risk Management

Provident's integrated risk management program is a key management tool employed to protect Provident's employees, stakeholders, assets, environment and reputation. It is also used to achieve more predictable and stable cash distributions. Provident's definition of risk is broad and so too are the policies and procedures Provident uses to identify, monitor, measure and mitigate business and market risks. Current mitigation policies and procedures are listed on the following page.

Operational, strategic and governance risk mitigation practices are covered in other sections of the annual report. In this section of the report, we highlight Provident's financial risk management activities.

Provident is exposed to all the normal business and market risks inherent within the oil, natural gas and natural gas liquids (NGL) business, including commodity price risk, foreign-currency rate risk, interest rate risk, and counterparty credit risk. Since its inception, Provident has used financial hedging instruments to manage the commodity and foreign exchange exposures associated with its revenue stream.

In 2003, Provident broadened the scope of its risk management activities hiring additional internal expertise and implementing an Integrated Risk Management Program that cuts across business lines and commodities, and incorporates systematic programs to identify, monitor, measure and mitigate business and market risks. Provident also established the officer level Risk Management Committee (RMC), members of which include Provident's chief executive officer, president, chief financial officer and vice president of commercial development and risk management.

Commodity Price Risk

Provident's Commodity Price Risk Management Program (CPRMP) involves a disciplined hedging strategy and use of derivative instruments to minimize price risk associated with the volatility of commodity prices. These instruments may include fixed for floating swaps, costless collars, puts, calls, and fixed and indexed referenced pricing.

Oil and Natural Gas Hedging

In its oil and natural gas production business, Provident consistently layers in hedging positions such that it will have 50 to 70 percent of production hedged 12 months forward and 25 to 50 percent hedged 12 to 24 months out. The decisions to enter into hedge positions and risk management strategy selection are made by senior officers of Provident who are also members of Provident's RMC. The RMC receives input and commodity expertise from each business unit in the decision-making process. Strategies are selected based on their ability to help Provident provide stable cash flow and distributions per unit rather than to simply lock in a specific price per barrel of oil or cubic foot of natural gas.

The result of Provident's hedging program in 2003 was an opportunity cost of \$49 million (\$0.71 per unit). In 2003, 46 percent (\$22.6 million) of Provident's opportunity cost was realized in the first quarter. During this period, world commodity spot prices were pushed higher than the prices at which Provident was hedged during the fourth quarter of 2002. The spot price increase was primarily due to market perception of a supply shortage created by a petroleum worker strike in Venezuela and reduced exports from the Persian Gulf resulting from the U.S. invasion of Iraq.

Although Provident experienced opportunity costs in 2003, Provident remains committed to its CPRMP. In 2003, Provident's hedging program achieved its goal of stabilizing cash flows. At the same time it allowed Provident to capture the higher commodity prices realized in the market during 2003 on the unhedged portion of its production. Over the long-term, Provident believes a disciplined and consistent approach to commodity price risk management will reduce the volatility of cash flow and provide for a more predictable range of distributions.

INTEGRATED RISK MANAGEMENT			
FINANCIAL	OPERATIONAL	STRATEGIC	GOVERNANCE
Mitigation Policies and Procedures			
Established risk parameters Credit policies and procedures Executive Risk Management Committee Commodity Price Risk Management Program (CPRMP) Foreign exchange rate hedging in conjunction with CPRMP Liability, property, and directors and officers insurance Centralized monitoring and measurement of risk programs Regulatory and tax legislation group	EH&S procedures, training, reporting, and audits Regulatory, government and community relations Operational reporting and monitoring Third party independent reserve evaluation Property, business interruption, and environmental insurance	Annual strategic planning process Board level participation in strategy development Established annual objectives and metrics Goal-aligned compensation Succession planning	Core values: R.I.C.E. Independent board of directors Established and reviewed governance practices Code of Conduct Disclosure policies Internal communications Financial controls Community Investment Program

Natural Gas Liquids

In September 2003 Provident acquired the Redwater NGL Processing System and entered the midstream business. Provident's Midstream Services business has a commodity price risk profile that differs from that of Provident's Oil and Natural Gas Production (OGP) business. In the OGP business Provident hedges to protect absolute prices. In the Midstream Services business Provident hedges to protect the margins created through the buying, processing, and selling of NGLs.

The commodity price exposure in Provident's midstream operations is mitigated through long-term, fee-based and fixed margin contracts that reduce the effects of fluctuating natural gas feedstock and NGL prices. NGL sales transactions are usually executed based on a common reference price. When the buy and sell occur in the same month, the fixed margin between the prices is recovered. In the event of inter-month transactions, commodity prices are actively managed through a hedging program for the Midstream Services unit in accordance with Provident's CPRMP. NGLs are hedged utilizing their respective commodities except for ethane, where volumes are hedged utilizing natural gas as its primary sales and feedstock reference price.

Foreign Currency

A substantial portion of prices received for sales of crude oil, natural gas and certain NGL products are denominated in or referenced to the U.S. dollar. In the Canadian oil, natural gas and NGL businesses however, the majority of costs are denominated in Canadian dollars. As a result, changes in the U.S./Canadian dollar exchange rate can have positive or negative effects on OGP field netbacks and NGL margins.

Provident manages its exposure to fluctuations between the U.S./Canadian dollar exchange rate by matching a significant portion of its expected cash costs and cash revenues in the same currency. Provident may use derivative instruments to effectively convert cash flows from U.S. dollars to Canadian dollars.

In 2003, despite a bullish commodity price environment, the 18 percent appreciation of the Canadian dollar relative to the U.S. dollar over the year generally had a negative effect on the oil and natural gas sector. During 2003, the U.S./Canadian dollar exchange rate averaged \$0.714 compared to \$0.637 in 2002. Given Canadian currency-denominated 2003 heavy oil hedges, Provident realized a \$2 million positive cash flow increase.

Interest Rate Risk

Provident is also exposed to fluctuations in the Canadian prime interest rate as a result of the use of its term revolving debt facility. Provident actively monitors interest rates and the tools available to effectively fix interest payable at current or lower rates.

Credit Risk

Credit risk is the risk of non-payment by a customer or counterparty. Provident's Credit Policy has determined portfolio limits to ensure a diversified customer base and mitigate counterparty exposure. Provident evaluates the business and financial risk factors for each counterparty through internal credit procedures and in certain situations may request credit support in the form of Letters of Credit, guarantee or cash prepayment. A maximum credit limit is determined for each counterparty based on the credit ratings and internal models for each counterparty, which are based on company specific information and industry analysis. Credit exposures and limits are monitored routinely and reported to the RMC.

Insurance

Provident continually reviews its insurance requirements and policies to ensure adequate coverage of its assets. Insurance is in place for property damage, general liability, environmental impact, business interruption, directors and officers. The RMC receives reports and monitors the adequacy and appropriateness of Provident's insurance coverage.

Looking Forward

Protecting our employees, stakeholders, assets, environment and reputation are priorities for all of us at Provident. So too is delivering stable cash distributions. In 2004, resources will be focused on systems and processes to appropriately monitor, evaluate and control the level of business and market risk associated with a growing trust. Provident will implement several recommendations made by Risk Advisory, a Calgary-based independent risk management group hired in 2003 to provide an assessment of Provident's risk management programs. Provident will also continue to integrate business systems across its oil, natural gas and NGL businesses to appropriately track corporate risk limits, evaluate market conditions, and execute integrated risk management strategies to achieve more stable cash flow and distributions.

corporate citizenship

R-I-C-E

At Provident, we manage our business and relationships with stakeholders according to values outlined in our Trust's statement of corporate values, commonly referred to as R.I.C.E.

respect

We believe in building positive relationships with all stakeholders: employees, unitholders, suppliers and the communities in which we work. As an employer, Provident provides a supportive and cooperative environment in which respect is earned and valued. Titles are less important than ability and commitment to quality performance. We value listening and we communicate often and openly with all stakeholders.

integrity

We conduct our business ethically. We treat people honestly and we live and lead by our values. We deliver on our promises; we are accountable.



Strong corporate citizenship starts with sound corporate values and must include demonstrated commitment to protecting and caring for business stakeholders. Provident's business stakeholders include our investors as well as our employees and contractors, communities and customers, business partners and suppliers, regulators and industry peers.

At Provident, we manage our business and relationships with stakeholders according to values outlined in Provident's statement of corporate values, commonly referred to as R.I.C.E. Our commitment to R.I.C.E. is demonstrated through a myriad of programs and initiatives that guide and support the daily actions of Provident's employees – enabling Provident to live and lead by its values.

Provident's Environmental, Health and Safety (EH&S) Program and Community Investment Program are two specific examples of our on-going work to protect and care for our stakeholders.

Environment, Health and Safety Program

A respected operator, Provident's EH&S Program calls for the development and maintenance of appropriate operations practices and procedures that meet or exceed all regulatory requirements and industry standards. The program is premised upon providing employees and contractors with ongoing training and the necessary equipment to ensure EH&S responsibilities are understood and work is performed safely. Compliance with Provident's EH&S program is compulsory. Provident conducts regular inspections, audits performance of employee and contractor activities, and annually recognizes achievements in reaching EH&S goals and objectives.

Provident also participates in a number of industry programs which are aligned with its EH&S objectives and policy. In 2003, Provident achieved Gold Level status in the Canadian Association of Petroleum Producers – EH&S Stewardship Program in recognition of its internal EH&S audit system. Provident was also awarded a Silver certificate of achievement by the Voluntary Challenge Registry (VCR), a non-profit partnership between industry and government established to promote, assess and recognize the effectiveness of the voluntary approach in addressing climate change. Provident has agreed to a 10 percent reduction in greenhouse gas emissions based

on 2001 production by December 31, 2006. Joining the program in 2002, Provident will achieve a 5 percent reduction in its greenhouse gas emissions from its oil and natural gas business by the end of 2004.

Committed to delivering ever-better results in 2004, Provident will expand its EH&S initiatives to incorporate programs already in place at the newly acquired Redwater facilities.

Community Investment Program

Provident's community investment supports programs that facilitate learning and growth, and protection of life, property and the environment. Provident invests in four core areas:

Health and Wellness – programs that promote physical and mental health and treatment of disease;

Education and Youth – programs that develop academic skills, self-respect, self reliance, and personal responsibility; entrepreneurship; and community involvement;

Environment and Safety – programs that protect the environment; support emergency response and promote responsible operations of industrial equipment/technology; and

Community Development – programs that will have a positive affect on the long-term quality of life of a community.

Annually, Provident directly invests in programs that add long-term value in communities in which the Trust does business and where its employees live. In 2003, Provident invested financial and human resources supporting organizations such as Renfrew Educational Services, the Alberta Children's Hospital, the Canadian Mental Health Association, Big Brothers Big Sisters, the United Way, and Mount Royal College.

In 2004, Provident employees will continue to spearhead initiatives and Provident will fund programs that help make communities from Calgary to Fort Saskatchewan, and Lloydminster to Estevan better places to live and work – demonstrating our commitment to strong corporate citizenship.

creativity

Our decisions are responsible and take into account the risks involved. We treat new ideas seriously and think out of the box when it comes to finding ways to add value, make operations more streamlined and make Provident more cost-efficient. We are flexible enough to adapt to a changing environment.

excellence

It is what we strive for. We achieve it by investing in learning and professional development and by encouraging our employees to continuously improve. We celebrate success as a company and individually. Our goal is to be the best in our class.



William T. Cramb, CA
Controller



Wendy C. Martino, CMA, CFA
Midstream Controller



Gary M. Myers, CMA
Upstream Controller

management's discussion and analysis

 The following analysis provides a detailed explanation of Provident's operating results for the year ended December 31, 2003 compared to the year ended December 31, 2002 and should be read in conjunction with the audited consolidated financial statements of Provident.

This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Provident's control, including the impact of general economic conditions in Canada and the United States; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility and obtaining required approvals of regulatory authorities. Provident's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Provident will derive therefrom. All amounts are reported in Canadian dollars, unless otherwise stated. All conversions of natural gas to oil equivalent are on a 6:1 basis.



Jennifer M.E. Pierce, MA, MBA
Senior Manager
Investor Relations and Communications

Provident Energy Trust has diversified investments in certain segments of the energy value chain. Provident currently operates in two key business segments: Oil and Natural Gas Production (OGP) and Midstream Services and Marketing (Midstream). Provident's OGP business unit produces crude oil and natural gas from five core areas in the western Canadian sedimentary basin while the Midstream business unit extracts, transports, fractionates, stores, distributes and markets NGLs at the Redwater facility and surrounding infrastructure located north of Edmonton, Alberta, and markets crude oil.

This analysis commences with a summary of the consolidated financial and operating results followed by segmented reporting on the OGP business unit and the Midstream business unit. The reporting focuses on the financial and operating measurements management uses in making business decisions and evaluating performance.

Consolidated Cash Flow from Operations and Cash Distributions

Year ended
December 31,

	2003	2002
Revenue, Cash Flow and Distributions		
Revenue (net of royalties)	\$ 600,702	\$ 550,000
Cash flow from Operations	\$ 135,706	\$ 100,000
Per weighted average unit - basic ¹	\$ 1.98	\$ 1.50
Interest on convertible debentures	\$ (7,341)	\$ (7,000)
Adjusted cash flow	\$ 128,365	\$ 93,000
Declared distributions	\$ 129,612	\$ 93,000
Per Unit ²	\$ 2.00	\$ 1.50
Percent of cash flow distributed	96%	90%
Percent of adjusted cash flow distributed	101%	90%

1 includes exchangeable shares

2 excludes exchangeable shares

Cash flow from operations ("cash flow") increased 40 percent to \$135.7 million in 2003 from \$97.0 million in 2002. The growth in cash flow in 2003 reflected a full year of the oil and gas production acquisitions completed throughout 2002 as well as fourth quarter cash flow generated by the Midstream business unit acquired September 30, 2003. Cash flow from OGP increased 31 percent to \$126.7 million compared to \$97.0 million in 2002. The acquisition driven increase incorporated a 25 percent increase in production volumes, an increase in average commodity prices partially offset by opportunity costs from the Commodity Price Risk Management Program, lower realized prices due to the appreciating Canadian dollar, as well as increased general and administration costs and interest expense associated with Provident's growth. Cash flow from the Midstream business unit included in Provident's results effective September 30, 2003 totaled \$9.0 million for the fourth quarter of 2003 with no comparable figure for 2002. Cash flow from operations per unit decreased 18 percent to \$1.98 per unit compared to \$2.41 in 2002. The opportunity cost associated with the Commodity Price Risk Management Program was significant in 2003 amounting to \$0.71 per unit compared to the cost in 2002 of \$0.16 per unit.

Management uses cash flow (before changes in non-cash working capital) to analyze operating performance and leverage. Cash flow as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to cash flow throughout this report are based on cash flow before changes in non-cash working capital.

Adjusted Cash Flow

Provident uses the term adjusted cash flow to refer to cash flow from operations net of the interest paid on the subordinated convertible debentures. Management reviews adjusted cash flow in setting distributions and historically has paid out close to all of its adjusted cash flow as distributions to unitholders. Provident has maintained a high payout ratio of adjusted cash flow in both 2003 and 2002 as it has funded its annual capital program through participation in its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan program and minor property dispositions. Adjusted cash flow for 2003 was \$128.4 million compared to \$129.6 million of distributions while in 2002 adjusted cash flow was \$92.1 million and distributions totaled \$81.5 million. Distributions were 101 percent of adjusted cash flow in 2003 and 89 percent in 2002.

Distributions

The following table summarizes distributions paid or declared by the Trust since inception:

Record Date	Payment Date	Distribution Amount	
		(Cdn\$)	(US\$)*
2003			
January 21	February 14	\$ 0.20	\$ 0.13
February 20	March 14	0.20	0.13
March 20	April 15	0.20	0.14
April 21	May 15	0.20	0.15
May 20	June 13	0.20	0.15
June 18	July 15	0.20	0.14
July 21	August 15	0.17	0.12
August 20	September 15	0.15	0.11
September 18	October 15	0.15	0.11
October 21	November 14	0.15	0.11
November 19	December 15	0.12	0.09
December 18	January 15, 2004	0.12	0.09
2003 Cash Distributions paid as declared		\$ 2.06	\$ 1.47
2002 Cash Distributions paid as declared		\$ 2.03	\$ 1.29
2001 Cash Distributions paid as declared - March 2001 - December 2001		\$ 2.54	\$ 1.64
Inception to December 31, 2003 - Distributions paid as declared		\$ 6.63	\$ 4.40

* exchange rate based on the Bank of Canada noon rate on the payment date.

For Canadian residents the tax treatment of the distributions was: 2003 - 59 percent taxable, 41 percent return of capital; 2002 - 48 percent taxable, 52 percent return of capital; 2001 - 40.7 percent taxable, 59.3 percent return of capital.

Net Income

(000s except per unit data)	Year ended December 31,	
	2003	2002
Net income	\$ 33,394	\$ 8,340
Per weighted average unit		
- basic ⁽¹⁾	\$ 0.38	\$ 0.09
Per weighted average unit		
- diluted ⁽²⁾	\$ 0.14	\$ 0.09

(1) Based on weighted average number of trust units and trust units that would be issued upon conversion of exchangeable shares. Net income available for distribution to unitholders in the basic and diluted per trust unit calculations has been reduced by interest on the convertible debentures.

(2) Based on weighted average number of trust units and trust units that would be issued upon conversion of exchangeable shares and conversion of the convertible debentures.

Comparative figures for net income have been restated due to the retroactive application of the new Asset Retirement Obligation accounting standard. Losses before taxes amounted to \$19.8 million for the year, however future tax recoveries of \$56.5 million for the year ended December 31, 2003 resulted in the reported income.

The OGP business segment contributed \$126.7 million of cash flow, \$118.0 million of earnings before interest DD&A and taxes, and \$25.3 million of net income for the year ended December 31, 2003. The Midstream unit contributed \$9.0 million of cash flow, \$10.3 million of earnings before interest, taxes and depletion, depreciation and accretion, and \$8.1 million of net income for the year ended December 31, 2003.

Taxes

	Year ended December 31,	
	2003	2002
Capital taxes	\$ 3,332	\$ 3,264
Future income taxes recovery	\$ (56,478)	\$ (18,414)

Comparative figures for future income taxes (recovery) have been restated due to the retroactive application of the new Asset Retirement Obligation accounting standard.

The year to date future income tax recovery was primarily caused by changes in Canadian tax legislation. On June 9, 2003 the Canadian government substantially enacted federal income tax changes for the oil and natural gas sector as it had outlined in its 2003 budget. Resource tax rates will decline from the current 27 percent to 21 percent by 2007. Concurrently, the 100 percent deductibility of the resource allowance will be phased out and Crown charges will become 100 percent deductible. These changes, combined with a revision in estimates of Provident's tax pool balances, resulted in the significant future tax recovery.

Capital taxes include the Saskatchewan Resource surcharge and federal and provincial large corporation taxes.

Interest Expense

	Year ended December 31,	
	2003	2002
Interest on long-term debt	\$ 9,733	\$ 5,307

Interest expense increased for the year ended December 31, 2003 as compared to 2002 due to the increase in the overall size of Provident, with commensurate increases in debt levels.

Provident continued to manage debt, and in turn interest expense, prudently in 2003. Capital spending of \$31.6 million, excluding the Redwater purchase, was funded through capital dispositions of \$9.9 million and proceeds from Provident's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the DRIP) of \$27.4 million. The Redwater purchase was financed in part by the \$276.6 million bought deal financing that comprised \$201.6 million of unit equity and \$75.0 million of convertible debentures.

Commodity Price Risk Management Program

Provident's Commodity Price Risk Management Program involves a disciplined hedging strategy and use of derivative instruments to mitigate near term price risk associated with the volatility of commodity prices. Strategies are selected based on their ability to help Provident provide stable cash flow and distributions per unit rather than to simply lock in a specific price per barrel of oil or cubic foot of natural gas. Provident uses a combination of forward sales contracts, physical hedges on both wellhead prices and heavy oil differentials, financial hedging on WTI crude oil and AECO natural gas prices and Cdn/US exchange rate hedges. For 2003, the Program recorded an opportunity cost of \$23.9 million on crude oil (\$4.77 per barrel) and an opportunity cost of \$25.0 million on natural gas (\$0.92 per mcf), compared to an opportunity cost \$13.0 million for crude oil (\$3.13 per barrel) and a positive impact of \$6.6 million for natural gas (\$0.32 per mcf) in 2002. The total impact in 2003 was an opportunity cost of \$48.9 million (\$4.91 per boe) compared to an opportunity cost of \$6.4 million (\$0.81 per boe) in 2002. In 2003, 46 percent of the opportunity cost or \$22.6 million was realized in the first quarter when the WTI crude oil price averaged US\$33.80 and natural gas priced at AECO averaged Cdn\$7.61 per mcf, quarterly averages that have never before been achieved in tandem at those levels. On a per unit basis the opportunity costs were \$0.71 per unit in 2003 and \$0.16 per unit in 2002.

The estimated mark to market value of open contracts at December 31, 2003 was negative for both crude oil and natural gas, totaling \$21.1 million for crude oil and \$4.1 million for natural gas based on commodity prices prevailing at December 31, 2003. The contract positions are provided in note 17 to the consolidated financial statements - Financial instruments and hedging.

Liquidity and Capital Resources

	December 31,	
	2003	2002
Long-term debt	\$ 236,500	\$ 187,200
Working capital (surplus)/deficit	(18,552)	15,681
Net debt	217,948	202,881
Equity (at book value)	679,228	471,420
Total capitalization at book value	\$ 897,176	\$ 674,301
Net debt as a percentage of total book value capitalization	24%	30%

Bank Debt and Working Capital

As at December 31, 2003 Provident had drawn on 80 percent of its \$310.0 million revolving term credit facility, comparable to the 74 percent drawn at December 31, 2002. At December 31, 2003 Provident had letters of credit guaranteeing Provident's performance under certain commercial contracts that totaled \$12.3 million, marginally increasing bank line utilization to 80 percent. The guarantees are associated with the marketing segment of the midstream business unit. At December 31, 2002 Provident's guarantees were negligible.

Provident's net debt (debt net of working capital) and working capital increased by \$15.1 million to \$217.9 million as at December 31, 2003 compared to \$202.9 million as at December 31, 2002. The 2003 year-end working capital surplus of \$18.6 million compares to a \$15.7 million deficit at 2002 year end with the surplus being primarily attributable to the \$24.2 million of inventory associated with the Midstream business unit.

Net debt has decreased to 24 percent of total debt and equity, at book values from 30 percent for the prior year.

Convertible Subordinated Debentures

In April 2002 the trust issued \$64.4 million aggregate principle amount of convertible unsecured subordinated 10.5 percent debentures (10.5 percent debentures) that mature May 15, 2007 with interest payable semi-annually in arrears on May 15 and November 15 each year. The 10.5 percent debentures are convertible at the debenture holder's option into Trust Units at a conversion price of \$10.70 per Trust Unit, subject to adjustment in certain circumstances. In 2003, \$14.4 million of the debentures were converted into trust units compared to \$0.1 million in 2002. Interest recorded on these debentures in 2003 increased to \$5.6 million compared to \$4.9 million in 2002 reflecting that the debentures were outstanding throughout 2003 compared to under nine months in 2002.

On September 30, 2003 the Trust issued \$75.0 million aggregate principle amount of convertible unsecured subordinated 8.75 percent debentures (8.75 percent debentures) that mature December 31, 2008 with interest payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2003. The 8.75 percent debentures are convertible at the debenture holder's option into Trust Units at a conversion price of \$11.05 per Trust Unit, subject to adjustment in certain circumstances. During the three months the debentures were outstanding, there were no conversions to trust units and the interest accrued and paid at December 31, 2003 amounted to \$1.6 million. The 8.75 percent debentures were issued September 30, 2003 in conjunction with the Redwater acquisition.

The Trust's debentures net of issue costs are currently classified in Unitholders' Equity as the principal amount of the debentures can be settled with either trust units or cash at the time of maturity. Interest on the Debentures is included in Unitholders' Equity as accumulated interest on convertible debentures.

Trust Units

Effective with the May 2002 distribution, the Trust initiated a premium distribution, and distribution reinvestment plan ("DRIP"). The DRIP permits eligible unitholders to direct their distributions to the purchase of additional units at 95 percent of the average market price as defined in the plan ("Regular DRIP"). The premium distribution component permits eligible unitholders to elect to receive 102 percent of the cash the unitholder would otherwise have received on the distribution date ("Premium DRIP"). Unitholders who participate in either the Regular DRIP or the Premium DRIP are also eligible to participate in the optional unit purchase plan as defined in the plan. 2.6 million units were issued for proceeds of \$27.4 million pursuant to this plan during 2003, compared to 1.8 million units for proceeds of \$17.7 million in 2002.

On September 30, 2003, concurrent with the purchase of the Redwater assets, the trust issued 16,700,000 units, with an additional 2,505,000 units being issued shortly thereafter as the underwriters exercised an overallotment option for proceeds of \$201.7 million. In 2002 the trust issued an aggregate of 25.7 million units for proceeds of \$257.2 million as part of the Richland and Meota acquisitions, and a further 3.9 million units (proceeds \$39.4 million) were issued to partially finance a major property purchase.

During the year ended December 31, 2003 the Trust issued 5.7 million units on conversion of exchangeable shares to units (conversion amount \$55.5 million) (2002 - 0.6 million units issued with a conversion amount of \$6.9 million), and 1.3 million units issued on conversion of convertible debentures (conversion amount \$14.4 million) (2002 - 0.012 million units issued with a conversion amount of \$0.13 million).

On February 4, 2004 the Trust issued 4.5 million units at \$11.20 per unit for proceeds of \$50.4 million (\$47.9 million net of issue costs) pursuant to a public offering prospectus dated January 22, 2004. Proceeds from the issue were initially used to pay down Provident's bank debt and throughout 2004 will be used to finance the board approved 2004 capital budget of \$46.0 million.

Capital Expenditures and Funding

	Year ended December 31,	
	2003	2002
Capital Expenditures		
Capital expenditures and site restoration	\$ (34,120)	\$ (23,297)
Property acquisitions		(70,936)
Acquisition of Redwater	(298,638)	-
Corporate acquisitions	(364)	(35,530)
Property dispositions	9,947	11,157
Net capital expenditures	\$ (322,175)	\$ (118,606)
Funded By		
Adjusted cash flow net of declared distributions	\$ (1,247)	\$10,469
Issue of debentures, net of cost	71,800	61,398
Issue of trust units, net of cost; excluding DRIP	192,854	38,270
DRIP proceeds	27,408	17,744
Reimbursements - leasehold improvements	1,437	-
Change in working capital	(18,377)	1,050
Increase (decrease) in long term bank debt	49,300	(10,325)
	\$ 323,175	\$ 118,606

The acquisition of the Redwater assets was funded by the issue of equity and convertible debentures and bank debt. Bank debt of \$100.0 million has been allocated to the midstream assets in the segmented reporting in the financial statements. Capital expenditures were funded by a combination of DRIP proceeds and proceeds received on non-core property dispositions. Provident's strategy is to fund acquisitions by accessing the capital markets and to fund capital expenditures through DRIP and other equity if needed.

Net Asset Value

Provident's net asset value ("NAV") at January 1, 2004 is summarized in the table below. The net asset value is calculated on a fully diluted basis, which includes exchangeable shares and unit options, and presented with two discounted cash flow cases with the convertible debentures treated as equity and debt.

At January 1, 2004 (\$000s, except for unit date)	McDaniel (Jan 1, 2004 Pricing)		McDaniel (April 1, 2004 Pricing)	
	Discounted at 10 percent	Discounted at 8 percent	Discounted at 10 percent	Discounted at 8 percent
Present value of proved plus probable oil and natural gas reserves	\$ 418,422 ⁽¹⁾	\$ 444,392 ⁽¹⁾	\$ 500,961 ⁽²⁾	\$ 530,244 ⁽²⁾
Midstream assets ⁽³⁾	345,083	395,864	345,083	395,864
Undeveloped land ⁽⁴⁾	28,016	28,016	28,016	28,016
Unit Option proceeds	44,340	44,340	44,340	44,340
Net debt including working capital	(217,948)	(217,948)	(217,948)	(217,948)
Net asset value	\$ 617,913	\$ 694,664	\$ 700,452	\$ 780,516
Units Fully Diluted (thousands)	100,315	100,315	100,315	100,315
NAV per unit	\$ 6.16	\$ 6.92	\$ 6.98	\$ 7.78
NAV per unit (debentures as debt)	\$ 5.55	\$ 6.41	\$ 6.48	\$ 7.38

(1) Evaluated by McDaniel & Associates Consultants Ltd. effective January 1, 2004: includes hedging

(2) Evaluated by McDaniel & Associates Consultants Ltd. effective April 1, 2004: includes hedging.

(3) The midstream assets were acquired on September 30, 2003 for CDN\$283.2 million plus inventory. Discounted cash flows were determined using annual EBITDA of \$38MM for 20 years

(4) Evaluated by Seaton-Jordon & Associates Ltd. effective January 1, 2004

OGP Segment Review

Crude oil price

	Year ended December 31,		
	2003	2002	% change
Oil per barrel			
WTI (US\$)	\$ 31.02	\$ 26.11	19
Exchange rate (from US\$ to Cdn\$)	\$ 1.41	\$ 1.56	[10]
WTI expressed in Cdn\$	\$ 43.74	\$ 40.73	7
Corporate realized crude oil and natural gas liquids price before hedging (Cdn\$)	\$ 30.77	\$ 29.62	4
Corporate realized light/medium oil price before hedging (Cdn\$)	\$ 36.02	\$ 34.90	3
Corporate realized heavy oil price before hedging (Cdn\$)	\$ 24.74	\$ 25.46	[3]
Corporate realized natural gas liquids price before hedging (Cdn\$)	\$ 35.87	\$ 29.04	24

For 2003, the 19 percent increase in WTI did not lead to a commensurate increase in Provident's realized oil and natural gas liquids price, prior to the impact of hedging, as Provident's price was eroded by the stronger Canadian dollar partially offset by a decreased percentage of production of lower priced heavy oil. Heavy oil production as a percentage of total crude oil and natural gas liquids production in 2003 was 46 percent compared to 51 percent in 2002. The decrease in the year over year percentage of heavy oil production was mainly due to the October 1, 2002 Meota Resources Corp. acquisition that added a higher percentage of light oil to Provident's overall liquids production mix in the fourth quarter of 2002 and throughout all of 2003.

Natural gas price

	Year ended December 31,		
	2003	2002	% change
AECO (Cdn\$)	\$ 6.69	\$ 4.05	65
Gas revenue per mcf ⁽¹⁾ (Cdn\$)	\$ 6.63	\$ 4.35	52

(1) Excluding the effects of the commodity price risk management program

Provident's realized natural gas price, excluding hedges, increased 52 percent over 2002, reflecting very strong gas prices throughout the year.

Production

	Year ended December 31,		
	2003	2002	% change
Daily production			
Crude oil - Light/Medium (bpd)	6,812	5,096	34
- Heavy (bpd)	6,902	6,310	9
Natural gas liquids (bpd)	1,167	1,030	13
Natural gas (mcf)	74,596	56,193	33
Oil equivalent (boed) ⁽¹⁾	27,314	21,801	25

(1) Provident reports equivalent production converting natural gas to oil on a 6:1 basis.

The 25 percent increase in 2003 production to average 27,314 boed compared to 21,801 boed in 2002 is primarily attributable to production associated with acquisitions closed in 2002 that were incorporated in Provident's production averages for a full year in 2003.

Provident's 2003 drilling program coupled with other production optimization activities, added approximately 3,200 boed of initial production primarily from the Lloydminster core area. The 2003 drilling program production additions have offset natural gas and natural gas liquids production declines in West Central Alberta at Brazeau and Gilby.

The 2003 daily production mix was 46 percent natural gas, 25 percent conventional heavy oil and 29 percent medium/light crude oil and natural gas liquids. The mix was relatively unchanged from the 2002 production mix of 43 percent natural gas, 29 percent conventional heavy oil and 28 percent medium/light crude oil and natural gas liquids. No single property within Provident's portfolio exceeds 10 percent of daily production.

Provident's \$46.0 million, 2004 board approved capital budget will focus primarily on shallow gas opportunities in Southern Alberta and Southern Saskatchewan. The production adds forecasted with the anticipated capital spending offset by natural production declines results in estimated average production for 2004 of 24,300 boed.

Revenue and royalties

	Year ended December 31,		
	2003	2002	% change
Oil			
Revenue	\$ 151,874	\$ 123,543	23
Cash hedging	(23,892)	(13,029)	83
Royalties (net of ARTC)	(29,156)	(22,469)	30
Net revenue	\$ 98,826	\$ 88,045	12
Net revenue (per barrel)	\$ 19.74	\$ 21.15	(7)
Royalties as a percentage of revenue	19.2%	18.2%	5
Natural gas			
Revenue	\$ 180,590	\$ 89,131	103
Cash hedging	(25,042)	6,550	-
Amortization of deferred hedging	(827)	(9,477)	91
Royalties (net of ARTC)	(39,190)	(19,191)	104
Net revenue	\$ 115,531	\$ 67,013	72
Net revenue (per mcf)	\$ 4.24	\$ 3.27	30
Royalties as a percentage of revenue	21.7%	21.5%	1
Natural gas liquids			
Revenue	\$ 15,282	\$ 10,915	40
Royalties	(4,523)	(2,654)	70
Net revenue	\$ 10,759	\$ 8,261	30
Net revenue (per barrel)	\$ 25.25	\$ 21.98	15
Royalties as a percentage of revenue	29.6%	24.3%	22
Total			
Revenue	\$ 347,746	\$ 223,589	56
Cash hedging	(48,934)	(6,479)	655
Amortization of deferred hedging	(827)	(9,477)	91
Royalties (net of ARTC)	(72,869)	(44,314)	64
Net revenue	\$ 225,116	\$ 163,319	38
Net revenue per boe	\$ 22.58	\$ 20.52	10
Royalties as a percentage of revenue	21.0%	19.8%	6

Year over year, crude oil, natural gas and natural gas liquids revenue have increased primarily due to acquisitions closed in 2002 that were incorporated in Provident's revenue for the full year in 2003.

The royalty burdens for 2003, expressed as a percentage of gross revenues, increased to 21 percent from 20 percent in 2002 due to the fact the percentage royalty paid increases as commodity prices increase and the increase in natural gas as a percentage of Provident's production mix. Natural gas generally bears higher royalty rates than royalties on crude oil. In the future Provident's royalty rates will be dependent on its production mix and movements in commodity prices.

Production expenses

	Year ended December 31,		
	2003	2002	% change
Production expenses	\$ 76,396	\$ 52,741	45
Production expenses (per boe)	\$ 7.66	\$ 6.63	16

Production expenses increased 45 percent to \$76.4 million from \$52.7 million in 2002. The increase was due to the 25 percent increase in daily average production volumes year over year. On a boe basis in 2003, production expenses increased each quarter reflecting declining production volumes bearing the fixed cost component of operating costs over fewer barrels of oil equivalent production. Further, higher costs for electricity, propane, processing fees and equalization costs and increased servicing and workover costs contributed to the 16 percent increase in per boe operating expenses. The year over year increase in per boe operating costs is consistent with Provident's peers and industry trends. Operating costs for 2004 are forecast to average in the range of \$7.50 - \$8.00 per boe.

Other income

Other income in 2003 of \$1.5 million primarily results from a gain realized on the sale of investments.

General and administrative

	Year ended December 31,		
Canadian dollars (000s except per unit data)	2003	2002	% change
General and administrative	\$ 14,289	\$ 7,987	79
Management fees	\$ -	\$ 11,296	[100]
General and administrative and management fees per boe	\$ 1.43	\$ 2.42	[41]

General and administrative and management fee expenses for 2003 were reduced by 26 percent or \$5.0 million to \$14.3 million from \$19.3 million in 2002. On a boe basis the 2003 costs were 41 percent lower at \$1.43 per boe compared to \$2.42 per boe in 2002. There were no cash management fees incurred in 2003 as the contract was internalized on January 17, 2003. This compared to 2002 management fees of \$11.3 million of which \$6.3 million was satisfied in cash and \$5.0 million was paid in trust units.

For 2004, factoring in anticipated results from the expenditure of the board approved capital budget, general and administrative expenses for OGP are expected to trend in the \$1.75 per boe range.

Operating netback

	Year ended December 31,		
	2003	2002	% change
Netback per boe			
Gross production revenue	\$ 35.07	\$ 28.10	26
Cash hedging	(4.91)	(0.81)	506
Realized revenue	30.16	27.29	11
Royalties (net of ARTC)	(7.31)	(5.57)	31
Operating costs	(7.66)	(6.63)	16
	\$ 15.19	\$ 15.09	1

The 2003 operating netback of \$15.19 per boe was flat to the \$15.09 per boe netback in 2002, however, the components of the operating netback differ. Higher gross production revenue was offset by increased opportunity costs associated with the commodity price risk management program, increased royalties as a percentage of the realized price and higher operating costs than in 2002.

In 2004 Provident will continue to focus on managing or reducing operating costs to improve operating netbacks.

Depletion, depreciation and accretion (DD&A)

	Year ended December 31,	
Canadian dollars (000s except per unit data)	2003	2002
DD&A	\$ 136,066	\$ 92,987
DD&A per boe	\$ 13.65	\$ 11.64

The high DD&A rate is attributable to the method of accounting for corporate acquisitions required under Canadian GAAP. More specifically, the book value of property, plant and equipment is increased by the tax-effected difference between the fair value of assets acquired and tax pools acquired. Over time, the increased DD&A rate is offset by a future tax recovery.

The main reason for the year over year increase in DD&A rates was the fourth quarter 2002 Meota acquisition and the tax effected increase in assets acquired being reflected throughout 2003 compared to the fourth quarter of 2002.

DD&A includes accretion expense associated with asset retirement obligation of \$2.2 million in 2003 (2002 - \$1.7 million).

Capital expenditures

	Year ended December 31,	
Canadian dollars (000s)	2003	2002
Lloydminster	\$ 12,200	\$ 9,670
West central and southern Alberta	11,936	7,497
Southeast and southwest Saskatchewan	3,854	3,158
Office and other	3,638	1,065
Total additions	\$ 31,628	\$ 21,390
Dispositions	\$ 9,947	\$ 11,157

Provident's capital expenditures are primarily funded through the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP). The DRIP program allows investors to reinvest distributions into Trust Units. Provident directs proceeds from the DRIP program (\$27.4 million), along with the proceeds from asset dispositions, towards the capital expenditure budget.

Provident incurred capital expenditures of \$31.6 million in 2003, of which \$12.2 million was spent in the Lloydminster core area drilling and completing 28 net heavy oil wells as well as on land purchases and seismic activity. In Southeast and Southwest Saskatchewan expenditures of \$3.9 million were directed at drilling, re-completions, facility projects as well as land purchases for future development. In West Central and Southern Alberta \$11.9 million was spent on both operated and non-operated drilling projects as well as on several re-completion, optimization, facility projects and land purchases for future development. Spending on leasehold improvements and office related capital primarily associated with Provident's head office move, as well as capital spending in non-core areas totaled \$3.6 million. A total of \$1.4 million of a leasehold improvement allowance was received from the landlord in the year and a further portion of the spending on office related capital will result in future rent reductions.

In the year Provident disposed of \$9.9 million of assets primarily related to the sale of acreage, along with minimal production, to a public Canadian junior oil and gas company. Management considered the risk associated with future development expenditures on the acreage disposed of to be too high for Provident to undertake such development activities. The proceeds on disposition were used to fund a portion of Provident's 2003 capital program.

Provident incurred \$21.4 million in capital expenditures in 2002 including \$12.4 million on drilling projects primarily in the Lloydminster core area, \$8.4 million of facility costs and \$0.6 million of miscellaneous projects. In addition to the \$21.4 million of capital spending, Provident also acquired Southern Alberta properties in 2002 for \$72.0 million.

The capital budget approved by the Board of Directors for 2004 for the OGP segment is \$46.0 million.

Midstream Services and Marketing

On September 30, 2003, Provident acquired Western Canadian midstream assets ("Redwater") for \$298.6 million. The purchase price was financed through \$35.8 million of long-term debt, \$71.8 million of net proceeds from the issuance of convertible debentures, and \$191.1 million in net proceeds from the issuance of 19,205,000 trust units.

Provident allocated the purchase price of Redwater as follows:

Net assets acquired:	
Petroleum product inventory	\$ 15,413
Property, plant and equipment (includes acquisition costs of \$6,763)	283,225
	<u>\$ 298,638</u>
The acquisition was financed by:	
Long-term debt	\$ 35,768
Issuance of trust units (net of costs \$10,582)	191,070
Issuance of convertible debentures (net of costs \$3,200)	71,800
	<u>\$ 298,638</u>

The assets

The Midstream business unit processes natural gas liquids (NGL) at the Redwater fractionation, storage and transportation facility located near Edmonton, Alberta. The integrated Redwater system is comprised of three core assets:

- 100 percent ownership of the Redwater NGL Fractionation Facility, a 65,000 barrels per day (bbl/d) fractionation, storage and transportation facility that includes 12 pipeline receipt and delivery points, railcar loading facilities with access to CN and CP rail, two propane truck loading facilities, and six million gross barrels of salt cavern storage. The facility can process high-sulphur NGL streams and is one of only two facilities in western Canada capable of extracting ethane from the natural gas liquids stream.
- 43.3 percent ownership of the 38,500 bbl/d Younger NGL extraction plant located at Taylor in northeastern British Columbia that supplies 16,700 bbl/d of net NGLs for processing at Redwater.
- 100 percent ownership of the 565 kilometre proprietary Liquids Gathering System that runs along the Alberta-British Columbia border providing access to a highly active basin for liquids-rich natural gas exploration and exploitation. Provident also has long-term shipping rights on the Pembina Peace Pipeline, that extends the product delivery transportation network through to the Redwater fractionation facility.

The majority of the property, plant and equipment are depreciated over 30 years on a straight-line basis reflecting the long useful life of these assets. The 2004 board approved capital budget is \$1.0 million.

Midstream services

Provident's midstream services offers customers several types of services and contractual arrangements which include:

Fee for service processing - ("Transportation and Fractionation - T&F"): In these arrangements, NGL owners (typically natural gas producers) deliver to Provident their NGLs and pay fees for the transportation, processing, fractionation, storage and distribution of their NGL barrels and are responsible for the marketing of their product.

Fixed margin processing: This service involves NGL owners delivering their product to Provident with Provident taking title and paying the NGL owner an amount that is the difference between a delivery price of raw NGLs that is discounted to postings and the posted price in that month for the finished products (this is the "fixed margin"). The discounted price that Provident purchases the product for covers the costs of transportation, processing, fractionation, storage, marketing and distribution of the NGLs.

Storage: NGL owners pay fees to store their NGLs.

Transport and Distribution: NGL owners pay fees to transport NGLs through the LGS pipeline and use rail and truck loading facilities.

The contracts

At the Redwater facility, 97 percent of the available capacity is contracted through fee-for-service and fixed margin contracts with major oil and natural gas producers and petrochemical businesses. These contracts account for 93 percent of Midstream Services's total revenue and as a result of these contracts, 67 percent of Redwater's output is contracted for 10 years or longer.

Fractionation plant capacity and throughput

The Redwater facility was constructed between 1996 and 1998. It is the most modern facility of its type in Canada and is currently designed for throughput capacity of 65,000 bpd of NGLs with an expectation to average approximately 63,000 bpd. Plant throughput for the fourth quarter of 2003 averaged 63,616 bpd.

Revenues

Fourth quarter product sales and services revenues of \$143.0 million include T&F processing, fixed margin processing and revenues generated through storage and distribution services and \$30.4 million associated with crude oil marketing. The majority of NGL revenues are earned pursuant to the long-term contracts and annual evergreen purchase and sales commitments.

Cost of goods sold

The cost of goods sold of \$178.0 million for the year relates to NGL product sales revenue included in the product sales and services revenue, where Provident has purchased the natural gas liquids and also includes the cost of crude oil barrels purchased as part of the crude oil marketing business. The NGL costs would be applicable to the fixed margin contracts and a small percentage of volume delivered from the Younger facility on which Provident retains fractionation risk. The majority of the natural gas liquids are purchased pursuant to long-term contracts and annual evergreen purchase commitments.

Other expenses

The plant has modern technology and low cost operations compared to other existing North American facilities of this type. Operating costs of \$7.6 million were representative of normal operations for the quarter without any major turnarounds or operating difficulties. General and administrative expenses of \$1.1 million, interest of \$1.1 million, and depreciation of \$2.2 million for the quarter are estimated by management to also be representative of normal operations for a quarter.

Crude oil marketing

In July 2003 Provident initiated operations in its crude oil marketing business. During the year \$29.1 million revenue was generated from marketing crude oil for third party producers. For the fourth quarter, \$16.8 million of revenue was generated marketing third party volumes. Management estimates that marketing of third party volumes, combined with certain Provident crude oil volumes, will provide better producer netbacks than can be achieved through third party marketers.

Foreign Ownership

On September 17, 2003 Canadian unitholders approved an amendment to its Trust Indenture providing that residency restriction provisions need not be enforced while the Trust continues to qualify as a Mutual Fund Trust under Canadian tax legislation.

The Trust qualifies as a Mutual Fund Trust under the Canadian Income Tax Act because substantially all the value of its asset portfolio is derived from non-taxable Canadian properties, comprised principally of royalties and inter-company debt. To allow Provident to remain a Mutual Fund Trust and to execute a business plan that maximizes unitholder returns without regard to the types of assets the Trust may hold, the approved amendment provides for Provident's board of directors to have sole discretion to determine whether and when it is appropriate to reduce or limit the number of trust units held by non-residents of Canada. Please see page 91 for proposed changes to the Canadian Income Tax Act.

Management Internalization

On January 17, 2003, unitholders of Provident approved a management internalization transaction to eliminate the performance-based arrangement between external management and the Trust for total non-cash consideration of \$18.0 million plus \$0.6 million of transaction costs. Total non-cash consideration of \$18.0 million was settled with the issuance of 1,682,242 exchangeable shares at a deemed price of \$10.70 per share that are held in escrow and released 25 percent per year commencing June 2003. The internalization was accretive to cash flow and net asset value and also improves the long-term cost structure of the Trust, which will be beneficial to the Trust's ability to attract capital in a competitive marketplace and complete accretive acquisitions. The transaction also increased ownership of the units held by management and directors further aligning management's interests with those of unitholders.

At December 31, 2003 approximately 3.5 percent of the outstanding units and units issuable upon conversion of exchangeable shares were held by management and directors.

Business Prospects

Provident intends to execute a balanced portfolio strategy. In the OGP business internal development projects with a board approved capital budget of \$46.0 million are planned. Halo acquisitions of interest in properties close to properties already owned or partially owned by Provident will be pursued. Major corporate or property acquisitions are being evaluated. In the Midstream Services business Provident will expand and build upon the Redwater business and evaluate additional infrastructure assets with a goal of adding quality assets at reasonable prices. The goal of these strategies is to maintain and increase per unit distributable cash flow and net asset value.

Sensitivities

The following table shows the estimated sensitivity of 2004 cash flows to changes in pricing, interest and volume with the assets and hedge positions in place:

	Change	
	(000s)	per unit
Pricing		
WTI (+US\$ 1.00) Oil	\$ 500	\$ 0.0059
AECO (+Cdn\$ 0.25) Gas	\$ 4,200	\$ 0.0474
Interest (+1.0%)	\$ 2,400	\$ 0.0266
US exchange (+Cdn\$ 0.01)	\$ 500	\$ 0.0061
Volume		
Light / Medium Oil (+100 bpd)	\$ 700	\$ 0.0079
Heavy Oil (+100 bpd)	\$ 500	\$ 0.0052
Natural Gas (+1.0 mmcf/d)	\$ 1,400	\$ 0.0154

Critical Accounting Policies

Provident's accounting policies are described in note 2 to the consolidated financial statements. Certain accounting policies are identified as critical accounting policies because they form an integral part of Provident's financial position and also require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain.

These accounting policies could result in materially different results should the underlying assumptions or conditions change.

Management assumptions are based on Provident's historical experience, management's experience, and other factors that, in management's opinion, are relevant and appropriate. Management assumptions may change over time as further experience is gained or as operating conditions change.

Details of Provident's critical accounting policies are as follows:

Property, plant and equipment

Provident follows the full cost method of accounting, whereby all costs associated with the acquisition and development of oil and natural gas reserves are capitalized. Utilization of the full cost method of accounting requires the use of management estimates and assumptions for amounts recorded for depletion and depreciation of property, plant and equipment as well as for the ceiling test.

The provision for depletion and depreciation is calculated using the unit of production method based on current production divided by Provident's share of estimated total proved oil and natural gas reserve volumes before royalties. The ceiling test limits the carrying value of oil and natural gas assets, net of future income taxes and asset retirement obligation, to the estimated undiscounted future net production revenue associated with the proved oil and natural gas reserves, plus the unimpaired costs of unproved properties, less estimated future general and administrative expenses, interest and income taxes.

Proved reserves are an estimate, under existing reserve evaluation policies, of volumes that can reasonably be expected to be economically recoverable under existing technology and economic conditions. Changes in underlying assumptions or economic conditions could have a material impact on Provident's financial results. To mitigate these risks management utilizes McDaniel & Associates Consultants Ltd., an independent engineering firm, to evaluate Provident's reserves.

Estimates of future production, oil and natural gas prices and future costs used in the ceiling test are, by their very nature, subject to uncertainty and changes in underlying assumptions could have a material impact on Provident's financial results.

Asset retirement obligation

The new Canadian Institute of Chartered Accountants ("CICA") standard for Asset Retirement Obligations changes the method of accounting for certain site restoration costs. Under the new standard, the fair value of asset retirement obligations are recorded as liabilities on a discounted basis, when incurred. The value of the related assets are increased by the same amount as the liability and depreciated over the useful life of the asset. Over time the liability is adjusted for the change in present value of the liability or as a result of changes to either the timing or amount of the original estimate of undiscounted future cash flows.

Asset retirement obligation requires that management make estimates and assumptions regarding future liabilities and cash flows involving environmental reclamation and remediation. Such assumptions are inherently uncertain and subject to change over time due to factors such as historical experience, changes in environmental legislation or improved technologies. Changes in underlying assumptions, based on the above noted factors, could have a material impact on Provident's financial results.

Changes in Accounting Policy

The following changes in accounting policy were adopted by Provident in 2003.

Asset retirement obligation

In 2003, the CICA issued Handbook Section 3110, Asset Retirement Obligation (ARO). The new standard requires recognition of the liability associated with future site reclamation costs at the time the liability is incurred. The new standard is effective for fiscal years beginning on or after January 1, 2004, however early adoption is encouraged. Provident early adopted ARO in accordance with the adoption provisions of the standard.

The ARO standard requires retroactive application with restatement of comparative periods. Pursuant to the requirement 2002 comparative numbers have been restated to reflect the impact of the new standard.

For a review of the impact of ARO on Provident's consolidated financial statements please see Note 3 to the consolidated financial statements, "Changes in accounting policy."

Unit based compensation

In 2003, Provident adopted CICA Handbook section 3870, "Stock-based compensation and other stock based payments". This change in accounting policy has been applied prospectively. For a review of the impact of section 3870 on Provident's consolidated financial statements please see Note 3 to the consolidated financial statements "changes in accounting policy".

Recent Accounting Pronouncements

The following new accounting guidelines or standards are applicable to Provident but have not been implemented.

Full cost accounting

In 2003, the CICA issued accounting guideline 16, "Oil and Gas Accounting - Full Cost." This accounting guideline replaces accounting guideline 5, "Full cost accounting in the oil and gas industry." The guideline alters the ceiling test calculation and is effective for fiscal years beginning on or after January 1, 2004. Provident is currently assessing the impact of this standard on its financial statements.

Exchangeable shares

In 2003, the CICA issued a draft EIC, "Income trusts - exchangeable shares." The EIC proposes that the retained interest of the exchangeable shareholders should be presented on the balance sheet as a non-controlling interest separate and distinct from unitholders' equity. The draft EIC is currently under review and was not enacted in final form as of the time of publication of Provident's consolidated financial statements.

Convertible debentures

In 2005, in accordance with CICA Handbook section 3860, "Financial instruments - disclosure and presentation," convertible debentures will be required to be classified as a liability on the balance sheet with interest payment recorded as an expense. Provident currently records convertible debentures as unitholders' equity and interest payments on convertible debentures as reductions to unitholders' equity. If convertible debentures are outstanding in 2005, the effect of this standard will increase debt, reduce unitholders' equity by the amount of such balances, and decrease income by the amount of the interest payments.

Hedging relationships

CICA accounting guideline 13, "Hedging relationships" is effective for fiscal periods beginning on or after July 1, 2003. This accounting guideline addresses the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting. In addition, it establishes criteria for discontinuing the use of hedge accounting. Under accounting guideline 13, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective to continue accrual accounting for positions hedged with derivatives. Provident does not anticipate applying hedge accounting to its commodity price risk management program and will consequently adjust the carrying value of derivatives to market value.

Business Risks

The oil and natural gas trust industry is subject to numerous risks that can affect the amount of cash flow available for distribution to unitholders and the ability to grow. These risks include but are not limited to:

- fluctuations in commodity price, exchange rates and interest rates;
- government and regulatory risk in respect of royalty and income tax regimes;
- operational risks that may affect the quality and recoverability of reserves;
- geological risk associated with accessing and recovering new quantities of reserves;
- transportation risk in respect of the ability to transport oil and natural gas to market; and
- capital markets risk and the ability to finance future growth.

The midstream industry is also subject to risks that can affect the amount of cash flow available for distribution to unitholders and the ability to grow. These risks include but are not limited to:

- operational matters and hazards including the breakdown or failure of equipment, information systems or processes;
- the performance of equipment at levels below those originally intended;
- operator error;
- labour disputes;
- disputes with owners of interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, fractures, acts of eco-terrorists and saboteurs, and
- other similar events, many of which are beyond the control of the Trust or Provident.

The Midstream NGL assets are subject to competition from other NGL processing plants, and the pipelines and storage, terminal and processing facilities are also subject to competition from other pipelines and storage, terminal and processing facilities in the areas they serve, and the natural gas products marketing business is subject to competition from other marketing firms.

Provident strives to minimize these business risks by:

- employing and empowering management and technical staff with extensive industry experience;
- adhering to a strategy of acquiring, developing and optimizing quality, low-risk reserves in areas where we have technical and operational expertise;

- developing a diversified, balanced asset portfolio that generally offers developed operational infrastructure, year-round access and close proximity to markets;
- adhering to a consistent and disciplined Commodity Price Risk Management Program to mitigate the impact that volatile commodity prices have on cash flow available for distribution;
- marketing crude oil and natural gas to a diverse group of customers, including aggregators, industrial users, well-capitalized third-party marketers and spot market buyers;
- marketing natural gas liquids and related services to selected, credit worthy customers at competitive rates;
- maintaining a low cost structure to maximize cash flow and profitability;
- maintaining prudent financial leverage and developing strong relationships with the investment community and capital providers;
- adhering to strict guidelines and reporting requirements with respect to environmental, health and safety practices; and
- maintaining an adequate level of property, casualty, comprehensive and directors' and officers' insurance coverage.

Risks Associated With the Level of Foreign Ownership

On September 17, 2003, Unitholders approved certain amendments to the Trust Indenture to provide that residency restriction provisions need not be enforced while the Trust is entitled to rely on the provisions of paragraph 132(7)(a) of the Tax Act for the purposes of maintaining its "mutual fund trust" status. The amendments provide that if at any time the board of directors of Provident determines or becomes aware that the Trust's ability to continue to qualify as a "mutual fund trust" based on its asset composition in accordance with paragraph 132(7)(a) of the Tax Act is in jeopardy, then forthwith after such determination (i) the Trust shall not be maintained primarily for the benefit of non-residents of Canada and (ii) Provident shall take such steps as are necessary or desirable to ensure that the Trust is not maintained primarily for the benefit of non-residents of Canada.

The retention of "mutual fund trust" status under the Tax Act is important for both resident and non-resident holders of Trust Units and not just for holders of Trust units held within Canadian tax exempt plans. The loss of such status could be expected to have an effect on the market price of the Trust Units. Please see page 91 for proposed changes to the Canadian Income Tax Act.

Unit Trading Activity

The following table summarizes the unit trading activity of the Provident units for the year ended December 31, 2003 on both the Toronto Stock Exchange and the American Stock Exchange:

	Q1	Q2	Q3	Q4	YTD
TSE - PVE.UN (Cdn\$)					
High	\$ 11.95	\$ 12.75	\$ 11.83	\$ 11.75	\$ 12.75
Low	\$ 9.85	\$ 10.00	\$ 10.45	\$ 10.28	\$ 9.85
Close	\$ 10.29	\$ 10.82	\$ 10.51	\$ 11.43	\$ 11.43
Volume (000s)	19,001	25,075	24,068	22,012	90,156
AMEX - PVX (US\$)					
High	\$ 8.24	\$ 9.47	\$ 8.53	\$ 8.89	\$ 9.47
Low	\$ 6.60	\$ 6.75	\$ 7.70	\$ 7.81	\$ 6.60
Close	\$ 7.01	\$ 8.06	\$ 7.82	\$ 8.84	\$ 8.84
Volume (000s)	22,625	45,502	30,524	40,261	138,912

Quarterly Table

(\$000s except per unit amounts)

Financial - consolidated

	First Quarter	Second Quarter	2003 Third Quarter	Fourth Quarter	YTD Total
Revenue	\$ 65,639	\$ 56,078	\$ 66,375	\$ 212,610	\$ 400,702
Cash flow	\$ 41,961	\$ 31,571	\$ 28,866	\$ 33,308	\$ 135,706
Net income	\$ 18,743	\$ 23,073	\$ 12,003	\$ 21,067	\$ 33,394
Unitholder distributions	\$ 33,091	\$ 35,528	\$ 28,969	\$ 32,023	\$ 129,611
Distributions per unit	\$ 0.60	\$ 0.60	\$ 0.47	\$ 0.39	\$ 2.06

Oil and gas production

Revenue	\$ 65,639	\$ 56,078	\$ 54,013	\$ 52,781	\$ 228,511
Earnings before interest, DD&A and taxes	\$ 26,845	\$ 33,989	\$ 31,517	\$ 25,640	\$ 118,011
Cash flow	\$ 41,961	\$ 31,571	\$ 20,705	\$ 24,305	\$ 128,702
Net income (loss)	\$ 18,743	\$ 23,073	\$ (2,003)	\$ 12,947	\$ 25,276

Midstream services and marketing ⁽¹⁾

Revenue	\$ -	\$ -	\$ 23,713	\$ 173,435	\$ 197,148
Earnings before interest, DD&A and taxes	\$ -	\$ -	\$ 81	\$ 10,243	\$ 10,324
Cash flow	\$ -	\$ -	\$ 81	\$ 8,923	\$ 9,004
Net income	\$ -	\$ -	\$ 81	\$ 9,039	\$ 9,120

Operating

Oil and gas production

Light/medium oil (bpd)	7,285	6,770	6,740	6,454	6,612
Heavy oil (bpd)	6,245	6,700	7,495	7,151	6,902
Natural gas liquids (bpd)	1,085	1,162	1,276	1,145	1,167
Natural gas (mcf/d)	11,926	72,898	73,090	68,657	74,396
Oil equivalent (boed)	26,602	26,781	27,701	26,193	27,316

Midstream services and marketing

Redwater throughput (bpd)	-	-	-	63,616	N/A
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Average selling price (Cdn \$)

Light/medium oil per bbl (before hedges)	\$ 43.64	\$ 33.57	\$ 33.49	\$ 32.79	\$ 36.02
Light/medium oil per bbl (including hedges)	\$ 32.04	\$ 29.10	\$ 29.34	\$ 26.41	\$ 29.09
Heavy oil per bbl (before hedges)	\$ 31.63	\$ 23.47	\$ 24.17	\$ 20.61	\$ 24.74
Heavy oil per bbl (including hedges)	\$ 24.63	\$ 21.32	\$ 22.16	\$ 20.25	\$ 22.09
Natural gas liquids per barrel	\$ 45.13	\$ 37.16	\$ 28.26	\$ 34.40	\$ 38.87
Natural gas per mcf (before hedges)	\$ 7.94	\$ 6.07	\$ 5.88	\$ 5.67	\$ 6.63
Natural gas per mcf (including hedges)	\$ 6.49	\$ 5.64	\$ 5.14	\$ 5.48	\$ 6.71

[1] Redwater Midstream assets aquired September 30, 2003

Quarterly Table

Quarterly Table			2002			
	First	Second	Third	Fourth	YTD	
(\$000s except per unit amounts)	Quarter	Quarter	Quarter	Quarter	Total	
Financial						
Revenue	\$ 24,861	\$ 36,800	\$ 37,286	\$ 64,561	\$ 163,508	
Cash flow	\$ 15,324	\$ 22,642	\$ 22,631	\$ 36,299	\$ 96,896	
Net income - restated ⁽¹⁾	\$ 823	\$ 763	\$ (279)	\$ 7,033	\$ 8,340	
Unitholder distributions	\$ 14,813	\$ 17,794	\$ 18,839	\$ 30,080	\$ 81,526	
Distributions per unit	\$ 0.46	\$ 0.49	\$ 0.51	\$ 0.57	\$ 2.03	
Operating						
Production						
Light/medium oil (bpd)	3,147	5,025	4,691	7,478	5,096	
Heavy oil (bpd)	5,712	6,019	7,032	6,459	6,310	
Natural gas liquids (bpd)	850	800	903	1,558	1,030	
Natural gas (mcf/d)	36,111	48,648	47,728	91,766	56,193	
Oil equivalent (boed)	15,728	19,952	20,581	30,789	21,801	
Average selling price (Cdn \$)						
Light/medium oil per bbl (before hedges)	\$ 28.88	\$ 35.14	\$ 37.41	\$ 35.65	\$ 34.90	
Light/medium oil per bbl (including hedges)	\$ 28.88	\$ 34.91	\$ 37.07	\$ 35.26	\$ 34.62	
Heavy oil per bbl (before hedges)	\$ 21.1	\$ 27.9	\$ 29.35	\$ 22.73	\$ 25.46	
Heavy oil per bbl (including hedges)	\$ 19.84	\$ 20.15	\$ 21.31	\$ 18.66	\$ 20.02	
Natural gas liquids per barrel	\$ 21.17	\$ 27.01	\$ 29.78	\$ 33.82	\$ 29.04	
Natural gas per mcf (before hedges)	\$ 3.52	\$ 4.2	\$ 3.44	\$ 5.21	\$ 4.35	
Natural gas per mcf (including hedges)	\$ 4.35	\$ 4.52	\$ 4.29	\$ 5.06	\$ 4.67	

[1] Restated for the change in accounting policy for asset retirement obligations described in Note 3 to the consolidated financial statements.

management's responsibility for financial reporting

The management of Provident is responsible for the information included in this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in accordance with accounting policies detailed in the notes to the financial statements. Where necessary, the statements include amounts based on management's informed judgements and estimates. Financial information in the Annual Report is consistent with that presented in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all of the Trust's assets are safeguarded and to facilitate the preparation of relevant, accurate and timely information.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed by the unitholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee is composed of three independent directors. The Audit Committee reviews the financial content of the Annual Report and reports its findings to the Board of Directors for its consideration in approving the financial statements.



Thomas W. Buchanan
Chief Executive Officer
Calgary, Alberta
March 11, 2004



Mark N. Walker
Chief Financial Officer

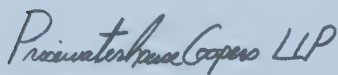
independent auditors' report

To the Unitholders of Provident Energy Trust

We have audited the consolidated balance sheets of Provident Energy Trust as at December 31, 2003 and 2002, and the consolidated statements of operations and accumulated loss and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the management of Provident. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2003 and 2002, and the results of its operations and cash flows for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
March 11, 2004

Comments by Auditor for U.S. readers on Canada-U.S. reporting differences

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the changes described in Note 3 to the Consolidated Financial Statements. Our report to the shareholders dated March 11, 2004 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the Auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
March 11, 2004

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Balance Sheet

As at December 31,
Canadian dollars (000s)

	2003	2002 [restated note 3]
Assets		
Current assets		
Cash	\$ 45	\$ 42
Accounts receivable	118,890	47,463
Petroleum product inventory	24,706	-
Assets held for sale	-	1,145
Prepays	5,432	2,605
	148,773	51,255
Cash reserve for future site reclamation (Note 18)	1,029	1,490
Goodwill (Note 4)	102,443	102,443
Property, plant and equipment (Note 7)	864,891	719,859
	\$ 1,137,936	\$ 875,047
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 131,832	\$ 54,783
Cash distributions payable	8,389	8,153
Payable to the Manager (Note 14)	-	4,000
	130,221	66,936
Long-term debt (Note 8)	236,500	187,200
Asset retirement obligation (Notes 3 and 9)	33,182	32,645
Future income taxes (Note 15)	58,805	116,846
Unitholders' Equity		
Unitholders' contributions (Note 10)	803,299	513,835
Exchangeable shares (Note 10)	19,518	57,036
Convertible debentures (Note 11)	119,395	61,279
Contributed surplus (Note 13)	1,305	-
Accumulated loss	(4,029)	(37,423)
Accumulated cash distributions (Note 6)	(248,018)	(118,406)
Accumulated interest on convertible debentures	(12,242)	(4,901)
	679,228	471,420
	\$ 1,137,936	\$ 875,047

Commitments (Note 16)

The accompanying notes form an integral part of these consolidated financial statements.

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Operations and Accumulated Loss

For the year ended December 31,

Canadian dollars (000s except per unit amounts)

	2003	2002 (restated note 3)
Revenue		
Sales	\$ 473,571	\$ 207,823
Royalties	(72,869)	(44,315)
	400,702	163,508
Expenses		
Cost of goods sold	153,147	-
Production, operating and maintenance	84,040	52,741
General and administrative (Note 12)	16,670	7,987
Management fees (Notes 12 and 14)	-	11,296
Management internalization (Note 14)	18,592	-
Interest on long-term debt	9,733	5,307
Depletion, depreciation and accretion	138,272	92,987
	420,454	170,318
Loss before taxes	(19,752)	(6,810)
Capital taxes	3,332	3,264
Future income tax recovery (Note 15)	(56,478)	(18,414)
	(53,146)	(15,150)
Net income for the year	33,394	8,340
Accumulated loss, beginning of year	(36,064)	(45,996)
Retroactive application of changes in accounting policies (Note 3)	(1,359)	233
Accumulated loss, beginning of year restated	(37,423)	(45,763)
Accumulated loss, end of year	\$ (4,029)	\$ (37,423)
Net income per unit - basic	\$ 0.38	\$ 0.09
- diluted	\$ 0.38	\$ 0.09

The accompanying notes form an integral part of these consolidated financial statements.

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Cash Flows

For the year ended December 31,

Canadian dollars (000s)

	2003	2002 (restated note 3)
Cash provided by operating activities		
Net income for the year	\$ 33,394	\$ 8,340
Add non-cash items:		
Depletion, depreciation and accretion	138,272	92,987
Amortization of deferred charges	621	8,983
Non-cash general and administrative (Note 12)	1,305	—
Future income tax recovery	(56,478)	(18,414)
Management internalization (Note 14)	18,592	—
Management fee paid with trust units (Note 14)	—	5,000
Cash flow from operations	135,706	96,896
Change in non-cash working capital	(23,377)	(7,090)
	112,329	89,806
Cash provided by financing activities		
Increase (decrease) in long-term debt	49,300	(10,325)
Declared distributions to unitholders	(129,612)	(81,526)
Issue of trust units, net of issue costs	220,262	56,014
Issue of debentures, net of costs	71,800	61,398
Interest on convertible debentures	(7,341)	(4,901)
Change in non-cash financing working capital	28	3,949
	204,437	24,609
Cash used in investing activities		
Expenditures on property, plant and equipment	(31,628)	(21,980)
Acquisition of Redwater (Note 4)	(298,638)	—
Acquisition of Provident Management Corp (Note 14)	(364)	—
Acquisition of Richland Energy Corporation (Note 4)	—	(3,389)
Acquisition of Meota Resources Corp. (Note 4)	—	(32,141)
Acquisition of oil and natural gas properties	—	(70,936)
Proceeds on disposition of oil and natural gas properties	9,947	11,157
Reclamation fund contributions	(2,492)	(1,317)
Reimbursement for leasehold improvements	1,437	—
Change in non-cash investing working capital	4,975	4,198
	(316,763)	(114,408)
Increase in cash	3	7
Cash beginning of year	42	35
Cash end of year	\$ 45	\$ 42
Supplemental disclosure of cash flow information		
Cash interest paid including debenture interest	\$ 17,876	\$ 4,713
Cash capital taxes paid	\$ 4,077	\$ 3,264

The accompanying notes form an integral part of these consolidated financial statements.

notes to consolidated financial statements

(Tabular amounts in Cdn\$ 000s, except unit and per unit amounts)

December 31, 2003

1. Structure of the Trust

Provident Energy Trust (the "Trust") is an open-end unincorporated investment trust created under the laws of Alberta pursuant to a trust indenture dated January 25, 2001, amended from time to time. The beneficiaries of the Trust are the unitholders. The Trust was established to hold, directly and indirectly, interests in petroleum and natural gas properties and commenced operations March 6, 2001.

Cash flow is provided to the Trust from the properties owned and operated by Provident Energy Ltd. and directly and indirectly owned subsidiaries and partnerships of the Trust ("Provident"). Cash flow is paid from Provident to the Trust by way of royalty payments, interest payments and principal repayments. The cash payments received by the Trust are subsequently distributed to the unitholders monthly.

2. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements include the accounts of the Trust and Provident.

(b) Property, plant and equipment

The Trust follows the full cost method of accounting for oil and natural gas exploration and development activities, whereby all costs associated with the acquisition and development of oil and natural gas reserves are capitalized. Such costs include lease acquisition, lease rentals on non-producing properties, geological and geophysical activities, drilling of productive and non-productive wells, and tangible well equipment. Gains or losses on the disposition of oil and gas properties are not recognized unless the resulting change to the depletion and depreciation rate is 20 percent or more. General and administrative costs are not capitalized other than to the extent that they are directly related to a successful acquisition.

All other property, plant and equipment, including midstream assets, are recorded at cost.

Inventories used to fill in cavern bottoms are presented as part of property, plant and equipment and stated at historical cost. These inventories are not depreciated.

Depletion, depreciation and accretion

The provision for depletion and depreciation for oil and natural gas assets is calculated using the unit-of-production method based on current production divided by the Trust's share of estimated total proved oil and natural gas reserve volumes, before royalties. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Trust includes estimated future costs for developing proved reserves, and excludes estimated salvage values of tangible equipment and the unimpaired cost of unproved properties.

Midstream facilities, including natural gas storage facilities and natural gas liquids extraction facilities are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets which are predominantly 30 years. Capital assets related to pipelines are carried at cost and depreciated using the straight-line method over their economic lives.

Ceiling test

The ceiling test limits the carrying value of oil and natural gas properties, net of future income taxes and asset retirement obligation, to the estimated undiscounted future net production revenue associated with the proved oil and natural gas reserves, plus the unimpaired costs of unproved properties, less estimated future general and administrative expenses, interest and income taxes. The test uses costs and prices in effect at the balance sheet date. In the application of the ceiling test, any excess carrying value of the assets on the balance sheet is charged to income in the current period.

(c) Inventory

Inventories of products are valued at the lower of average cost and net realizable value.

(d) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets received, is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount. Goodwill is not amortized.

(e) Asset retirement obligation

Provident follows the new Canadian Institute of Chartered Accountants standard for Asset Retirement Obligation ("ARO"). Under this standard the fair value of a liability for an ARO is recorded in the period where a reasonable estimate of the fair value can be determined. When the liability is recorded, the carrying amount of the related asset is increased by the same amount of the liability. The asset recorded is depleted over the useful life of the asset. Additions to asset retirement obligations due to the passage of time are recorded as accretion expense. Actual expenditures incurred are charged against the obligation.

(f) Unit option plan

Under Provident's option plan the exercise price of the option may be reduced in future periods, based upon the cash distributions made on the trust units, at the discretion of the option holder. Therefore, it is not possible to determine a fair value for options granted using a traditional option pricing model. Provident accounts for the unit option plan using the intrinsic value of the option, for unexercised options at the financial statement date. Compensation expense associated with the options is deferred and recognized in earnings over the vesting period of the options with a corresponding increase in contributed surplus. Any changes in the intrinsic value of unexercised options are recognized in earnings in the period of change with a corresponding increase or decrease to contributed surplus. Recoveries of compensation expense will only be recognized to the extent of previously recorded cumulative compensation expense associated with exercised and outstanding options as of the date of the financial statements. Consideration upon exercise of the options, along with the amount recorded as contributed surplus, is recorded as an increase in unitholders' contributions.

(g) Financial instruments

Provident uses financial instruments and physical delivery commodity contracts from time to time to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Gains and losses relating to these transactions are deferred and recognized in the financial statement category to which the hedge relates at the time the underlying commodity is sold or when the positions are settled.

(h) Future income taxes

Provident follows the liability method for calculating income taxes. Differences between the amounts reported in the financial statements of the corporate subsidiaries and their respective tax bases are applied to tax rates in effect to calculate the future tax liability. The effect of any change in income tax rates is recognized in the current period income.

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not distributed or distributable to the unitholders. As the Trust distributes all of its taxable income to the unitholders and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no provision for income taxes has been made in the Trust.

(i) Revenue recognition

Revenues associated with the sales of Provident's natural gas, natural gas liquids ("NGL's") and crude oil owned by Provident are recognized when title passes from Provident to its customer.

Marketing revenues and purchased product are recorded on a gross basis as Provident takes title to product and has the risks and rewards of ownership.

Revenues associated with the services provided where Provident acts as agent are recorded as the services are provided. Revenues associated with the sale of natural gas storage services are recognized when the services are provided.

(j) Use of estimates

The preparation of financial statements requires management to make estimates based on currently available information. In particular, estimates are made by management for amounts recorded for depletion and depreciation of the property, plant and equipment ("PP&E"), and asset retirement obligation. The ceiling test uses factors such as estimated proved reserves, production rates, petroleum and natural gas prices and future costs. Due to the inherent limitations in metering and the physical properties of storage caverns the determination of precise volumes of natural gas liquids held in inventory at such locations is subject to estimation. Actual inventories of natural gas liquids can only be determined by draining of the caverns. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

3. Changes in accounting policy**Asset retirement obligation**

The Trust adopted CICA Handbook Section 3110 "Asset Retirement Obligations" effective December 2003. This change in accounting policy has been applied retroactively with restatement of prior periods presented for comparative purposes. Previously, the Trust recognized a provision for future site reclamation based on the unit-of-production method applied to estimated future site abandonment and reclamation costs.

As a result of this change, net income for the year ended December 31, 2003 increased by \$0.04 million (\$0.06 million net of future income tax expense of \$0.02 million). At December 31, 2003 the ARO balance increased by \$0.5 million to \$33.2 million, the net PP&E balance decreased by \$4.3 million to \$884.9 million and the future tax liability increased by \$0.02 million to \$58.8 million.

The amounts previously reported for 2002 have been restated due to the retroactive application of the new ARO standard. As a result of this change, net income for the year ended December 31, 2002 decreased by \$1.6 million (\$2.5 million net of future income tax recovery of \$0.9 million). At December 31, 2002 the ARO balance increased by \$19.9 million to \$32.6 million, the net PP&E balance increased by \$19.9 million to \$719.9 million and the future tax liability increased by \$0.9 million to \$116.8 million.

Opening 2003 accumulated loss increased by \$1.4 million (\$2.1 million net of future income tax recovery of \$0.7) while the opening 2002 accumulated loss decreased by \$0.2 million (\$0.4 million net of future income tax expense of \$0.2 million) to reflect the cumulative impact of additional depreciation, depletion and accretion expense net of the previously recorded provision for site restoration.

Unit option plan

The Trust adopted CICA Handbook Section 3870 "Stock-based compensation and other stock-based payments" effective December 2003. This change in accounting policy has been applied prospectively.

As a result of this change, net income for the year ended December 31, 2003 decreased by \$1.3 million. At December 31, 2003 contributed surplus increased to \$1.3 million due to the implementation of the accounting policy.

4. Acquisitions

- (a) On September 30, 2003, Provident acquired Western Canadian midstream assets ("Redwater") for \$298.6 million. The purchase price was financed through \$35.8 million of long-term debt, \$71.8 million of net proceeds from the issuance of convertible debentures, and \$191.1 million in net proceeds from the issuance of 19,205,000 trust units.

Provident allocated the purchase price of Redwater as follows:

Net assets acquired	
Petroleum product inventory	\$ 15,413
Property, plant and equipment (includes acquisition costs of \$6,763)	283,225
	<u>\$ 298,638</u>
.....	
The acquisition was financed by:	
Long-term debt (Note 8)	\$ 35,768
Issuance of trust units (net of costs \$10,582)(Note 10)	191,070
Issuance of convertible debentures (net of costs of \$3,200)	71,800
	<u>\$ 298,638</u>
.....	

(b) Meota Resources Corp. ("Meota")

Effective October 1, 2002 Provident acquired Meota for cash consideration of \$27.1 million and 14,517,184 trust units with an ascribed value of \$158.3 million, plus 5,858,136 exchangeable shares with an ascribed value of \$63.9 million. The transaction has been accounted for using the purchase method with the allocation of the purchase price as follows:

Net assets acquired and liabilities assumed	
Property, plant and equipment	\$ 313,305
Goodwill	89,137
Working capital deficiency, net of cash	(2,816)
Long-term debt	(86,500)
Site reclamation liability	(1,084)
Future income taxes	(57,653)
	\$ 254,389
Consideration	
Cash	\$ 27,134
Acquisition costs incurred	5,007
Total cash consideration	32,141
Trust units issued	158,336
Exchangeable shares issued	63,912
	\$ 254,389

(c) Richland Petroleum Corporation ("Richland")

Effective January 16, 2002 Provident acquired Richland for consideration of 11,157,225 Trust units with an ascribed value of \$98.9 million. The transaction has been accounted for using the purchase method with the allocation of the purchase price as follows:

Net assets acquired and liabilities assumed	
Cash reserved for future site reclamation	\$ 372
Goodwill	13,306
Fair market value of financial hedges and physical contracts for petroleum products	10,133
Property, plant and equipment	219,151
Working capital deficiency	(10,744)
Long-term debt	(75,425)
Site reclamation liability	(1,559)
Future income taxes	(52,660)
	\$ 102,574
Consideration	
Acquisition costs incurred (includes \$332 incurred in 2001)	\$ 3,721
Trust units issued	98,853
	\$ 102,574

5. Segmented information

	Oil and Natural Gas Production	Midstream Services and Marketing	Inter- segment Elimination	Total
Revenue				
Gross production revenue	\$ 299,904	\$ –	\$ –	\$ 299,904
Royalties	(72,869)	–	–	(72,869)
Product sales and services revenue	–	197,148	(24,957)	172,191
Other revenue	1,476	–	–	1,476
	228,511	197,148	(24,957)	400,702
Expenses				
Cost of goods sold	–	178,104	(24,957)	153,147
Production, operating and maintenance	76,396	7,644	–	84,040
Cash general and administrative	14,289	1,076	–	15,365
Non-cash general and administrative	1,223	82	–	1,305
Management internalization	18,592	–	–	18,592
	110,500	186,906	(24,957)	272,449
Earnings before interest, taxes, depletion, depreciation and accretion	118,011	10,242	–	128,253
Interest on long-term debt	8,568	1,165	–	9,733
Depletion, depreciation and accretion	136,066	2,206	–	138,272
Capital taxes	3,177	155	–	3,332
Future income tax recovery [Note 15]	(55,074)	(1,404)	–	(56,478)
	92,737	2,122	–	94,859
Net income for the year	\$ 25,274	\$ 8,120	\$ –	\$ 33,394
Capital expenditures				
Acquisition of Redwater	\$ –	\$ 298,638	\$ –	\$ 298,638
Property, plant and equipment	31,628	–	–	31,628
Selected balance sheet items				
Working capital				
Accounts receivable	47,691	76,106	(4,907)	118,890
Petroleum product inventory	–	24,206	–	24,206
Accounts payable	52,146	74,593	(4,907)	121,832
Long-term debt	136,500	100,000	–	236,500

Provident's business activities are conducted through two business segments; oil and natural gas production and midstream services and marketing.

Oil and natural gas production includes exploitation, development and production of crude oil and natural gas reserves. Midstream services and marketing includes fractionation, transportation, loading and storage of natural gas liquids, and marketing of crude oil and natural gas liquids.

In 2002 Provident operated in only one business segment, oil and natural gas production. Therefore, no segmented comparatives have been presented.

6. Reconciliation of cash flow and distributions

For the year ended December 31,

	2003	2002
Cash flow from operations	\$ 135,706	\$ 96,896
Cash reserved for interest on convertible debentures	(7,341)	(4,901)
Cash (reserved) used for financing and investing activities	1,247	(10,469)
Cash distributions to unitholders	129,612	81,526
Accumulated cash distributions, beginning of year	118,406	36,880
Accumulated cash distributions, end of year	\$ 248,018	\$ 118,406
Cash distributions per unit	\$ 2.06	\$ 2.03

7. Property, plant and equipment

December 31, 2003	Cost	Accumulated depletion and depreciation	Net Book value
Oil and natural gas properties	\$ 990,568	\$ 391,922	\$ 598,646
Midstream assets	283,225	2,206	281,019
Office equipment	8,359	3,133	5,226
Total	\$1,282,152	\$ 397,261	\$ 884,891

December 31, 2002 (restated – note 3)	Cost	Accumulated depletion and depreciation	Net Book value
Oil and natural gas properties	\$ 973,598	\$ 255,901	\$ 717,697
Office equipment	4,042	1,880	2,162
Total	\$ 977,640	\$ 257,781	\$ 719,859

Costs associated with unproved properties excluded from costs subject to depletion as at December 31, 2003 totaled \$16.4 million (December 31, 2002 – \$30.2 million).

8. Long-term debt

December 31,

	2003	2002
Revolving term credit facility	\$ 236,500	\$ 187,200

Provident has a \$335 million term credit facility with a syndicate of Canadian chartered banks. Interest rates under the terms of the credit facility are determined quarterly based on the ratio of quarter end debt divided by the previous quarter's cash flow annualized. At December 31, 2003, the rate was bank prime of 4.5 percent plus 0.5 percent. In February 2004 Provident executed a credit agreement consent and amendment that restricted the borrowing base under this facility to \$310 million.

Pursuant to the terms of the agreement, each year on or after May 24 Provident can request the revolving period be extended for a further 364 day period. If the lenders do not extend the revolving period, at Provident's option the credit facility is converted to a one year non-revolving term credit facility at the end of the 364 day term, with one-sixth of

the loan balance due May 2005, one-twelfth due August 2005 and the remaining balance due at the end of the term period. As collateral security, Provident has pledged a \$500 million fixed and floating charge debenture against all of its assets.

At December 31, 2003 Provident had letters of credit guaranteeing Provident's performance under certain commercial contracts that totaled \$12.3 million, marginally increasing bank line utilization to 80 percent of the restricted borrowing base. The guarantees are associated with the marketing segment of the midstream business unit. At December 31, 2002 Provident's guarantees were negligible.

9. Asset retirement obligation

Provident's asset retirement obligation is based on the Trust's net ownership in wells and facilities and management's estimate of the costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred. Midstream assets, including the Redwater facility, the Younger Plant and the liquids gathering system have been excluded from the asset retirement obligation as retirement obligations associated with these assets have indeterminate settlement dates.

The total undiscounted amount of future cash flows required to settle asset retirement obligations is estimated to be \$99.7 million. Provident has estimated the present value of the asset retirement obligation to be \$33.2 million as at December 31, 2003. Payments to settle asset retirement obligations occur over the operating lives of the assets estimated to be from zero to 20 years. Estimated cash flows have been discounted at Provident's credit-adjusted risk free rate of 7 percent and an inflation rate of 2 percent.

For the year ended December 31,

	2003	2002
		(restated note 3)
Carrying amount, beginning of year	\$ 32,645	\$ 12,740
Increase in liabilities during the year	519	18,775
Settlement of liabilities during the year (Note 18)	(2,153)	(600)
Accretion expense	2,171	1,730
Carrying amount, end of year	\$ 33,182	\$ 32,645

10. Unitholders' contributions and exchangeable shares

The Trust has authorized capital of an unlimited number of common voting trust units.

During 2003 the Trust issued 19,205,000 units (16,700,000 on September 30, 2003 and 2,505,000 on exercise of underwriters options) for gross proceeds of \$201.7 million, in a financing concurrent with the purchase of the Redwater assets (Note 4).

On January 17, 2003 Provident Energy Ltd., a subsidiary, issued 1.7 million exchangeable shares as consideration for the acquisition of Provident Management Corp. (see Note 14). The conversion ratio for the exchangeable shares for the period January 17 to February 14, 2003 was equal to one trust unit for one exchangeable share, and is increased on each date a distribution is paid by the trust. The exchangeable shares are held in escrow and are releasable as to 25 percent per year beginning on June 30, 2003, and are releasable or may be forfeited in certain other limited circumstances.

On January 16, 2002 the Trust issued 11.2 million trust units as consideration for the Richland acquisition. On October 1, 2002, the Trust issued 14.5 million trust units and Provident Acquisitions Inc., a subsidiary, issued 5.9 million exchangeable

shares as partial consideration for the acquisition of Meota Resources Corp. The conversion ratio for the exchangeable shares for the period October 1 to November 14, 2002 was equal to one trust unit for one exchangeable share, and is increased on each date a distribution is paid by the Trust between October 1, 2002 and the date the exchangeable share is converted, at the option of the holder, into trust units. On January 15, 2005, all remaining exchangeable shares will be automatically exchanged for trust units, subject to extension at the option of the Trust.

Effective with the May, 2002 distribution, the Trust initiated a premium distribution, distribution reinvestment plan ("DRIP"). The DRIP permits eligible unitholders to direct their distributions to the purchase of additional units at 95 percent of the average market price as defined in the plan ("Regular DRIP"). The premium distribution component permits eligible unitholders to elect to receive 102 percent of the cash the unitholder would otherwise have received on the distribution date ("Premium DRIP"). Participation in the Regular and Premium DRIP is subject to proration by the Trust. Unitholders who participate in either the Regular DRIP or the Premium DRIP are also eligible to participate in the optional unit purchase plan as defined in the DRIP.

Trust units

Year ended December 31,

	2003		2002	
	Number of Units	Amount (000s)	Number of Units	Amount (000s)
Balance at beginning of year	53,729,335	\$ 513,835	21,054,119	\$ 187,587
Issued for cash	19,205,000	201,653	-	-
Exchangeable share conversions	5,726,525	55,518	844,150	8,876
Issued pursuant to unit option plan	202,446	1,626	126,034	1,103
Issued pursuant to the distribution reinvestment plan	2,478,956	25,880	1,751,652	17,744
To be issued pursuant to the distribution reinvestment plan	141,361	1,528	-	-
Debenture conversions	1,341,065	14,350	11,681	125
Issued from Treasury	-	-	3,900,000	39,390
Issued for corporate acquisitions	-	-	25,674,409	257,189
Issued for property acquisition	-	-	100,000	1,050
Issued to Provident Management Corporation	-	-	467,290	5,000
Unit issue costs	-	(11,091)	-	(2,229)
Balance at end of year	82,824,688	\$ 803,299	53,729,335	\$ 513,835

Exchangeable shares

Year ended December 31,

	2003		2002	
	Number of Shares	Amount (000s)	Number of Shares	Amount (000s)
Provident Acquisitions Inc.				
Balance at beginning of year	5,227,844	\$ 57,036	-	\$ -
Issued to acquire Meota Resources Corp.	-	-	5,858,136	63,912
Converted to trust units	14,693,487	(51,207)	630,292	(6,676)
Balance, end of year	534,357	5,829	5,207,844	57,036
Exchange ratio, end of year	1.2517	-	1.03597	-
Trust units issuable upon conversion, end of year	668,855	5,829	5,416,890	\$ 57,036

Exchangeable shares

Provident Energy Ltd.

Balance, December 31, 2002

Issued to acquire Provident Management Corp.

Converted to trust units

Balance, end of year

Exchange ratio, end of year

Trust units issuable upon conversion, end of year

Number of Shares	Amount (000s)
-	\$ -
1,682,242	18,000
(403,015)	(4,311)
1,279,227	13,689
1.18663	-
1,517,969	\$ 13,689

The per trust unit amounts for 2003 were calculated based on the weighted average number of units outstanding of 68,448,203, which includes the shares exchangeable into trust units. The per trust unit amounts for 2002 were calculated based on the weighted average number of units outstanding of 40,221,314. Net income available for distribution to unitholders in the basic per trust unit calculations has been reduced by interest on the convertible debentures. The diluted per trust unit amounts are calculated including an additional 50,098 trust units (2002 - 56,510) for the dilutive effect of the unit option plan. Provident's convertible debentures are not included in the computation of diluted earning per unit as their effect is anti-dilutive.

11. Convertible debentures

On September 30, 2003 the Trust issued \$75 million of unsecured subordinated convertible debentures (\$71.8 million net of issues costs) with a 8.75 percent coupon rate maturing December 31, 2008. The debentures may be converted into trust units at the option of the holder at a conversion price of \$11.05 per trust unit prior to December 31, 2008, and may be redeemed by the Trust under certain circumstances.

On April 11, 2002 the Trust issued \$64.4 million of unsecured subordinated convertible debentures (\$61.4 million net of issue costs) with a 10.5 percent coupon rate maturing May 15, 2007. The debentures may be converted into trust units at the option of the holder at a conversion price of \$10.70 per trust unit prior to May 15, 2007, and may be redeemed by the Trust under certain circumstances.

The debentures and related interest obligations have been classified as equity on the consolidated balance sheet as the Trust may elect to satisfy interest and principle obligations by the issuance of trust units. During the year \$14.35 million of 10.5 percent debentures were converted to trust units.

12. General and administrative expenses

Year ended December 31,

	2003	2002
General & administrative expenses	\$ 15,365	\$ 7,987
Non-cash general and administrative expenses ⁽¹⁾	1,305	-
Management fee	-	11,296
Total cash, non-cash general and administrative expenses and management fee	\$ 16,670	\$ 19,283

(1) non-cash general and administrative expenses is made up entirely by the trust unit incentive compensation expense.

13. Unit option plan

	Year ended December 31,			
	2003		2002	
	Number of Options	Weighted Average Exercise	Number of Options	Weighted Average Exercise
Outstanding, beginning of year	796,010	\$ 10.86	611,100	\$ 11.16
Granted	3,443,550	11.09	345,013	10.32
Exercised	(202,446)	10.62	(126,034)	10.87
Cancelled	(29,170)	11.18	(33,269)	10.72
Outstanding, end of year	4,008,744	11.06	796,810	10.86
Exercisable at end of year	1,535,004	\$ 11.07	330,149	\$ 11.09

The Trust Option Plan (the "Plan") is administered by the Board of Directors of Provident. Under the Plan, all directors, officers, employees and certain consultants of Provident are eligible to participate in the Plan. There are 5,000,000 trust units reserved for the Trust Option Plan. Options are granted at a "strike price" which is not less than the closing price of the units on The Toronto Stock Exchange on the last trading day preceding the grant. In certain circumstances, based upon the cash distributions made on the trust units, the strike price may be reduced at the time of exercise of the option at the discretion of the option holder. Options vest in the following manner; one-third vest six months after the grant date, one-third vest 1.5 years after the grant date and one-third vest 2.5 years after the grant date.

At December 31, 2003, the Trust had 4,008,744 options outstanding with exercise prices ranging between \$8.40 to \$12.39 per unit. The weighted average remaining contractual life of the options is 3.09 years and the weighted average exercise price is \$11.07 per unit excluding average potential reductions to the strike prices of \$1.26 per unit.

At December 31, 2002, the Trust had 796,810 options outstanding with prices ranging from \$8.40 to \$12.39 per unit. The weighted average exercise price was \$11.09 per unit. The weighted average remaining contractual life of the options was 2.8 years.

Provident recorded compensation expense and contributed surplus, based on the year end unit price, of \$1.3 million for the 3.4 million options granted on or after January 1, 2003. Provident has elected to apply the provision of CICA section 3870 prospectively, therefore, no compensation expense is associated with options granted prior to January 1, 2003.

14. Related party transactions

Until January 17, 2003 the Trust was actively managed by Provident Management Corporation (the "Manager"), and in accordance with the terms of the management agreement, the Manager was entitled to receive a base fee in the amount of 2 percent of the operating cash flow of Provident, plus a total return fee based on distributions and unit price performance during the period. Pursuant to the management fee amending agreement approved in conjunction with the management internalization transaction (Note 10), the base fee paid for the period January 1 to October 31, 2002 was \$1.8 million and \$0.5 million for the period November 1 to December 31, 2002, for a total base fee of \$2.3 million. The total return fee for 2002 was restricted to \$9.0 million, payable by way of \$4.0 million in cash and 467,290 trust units valued at \$5.0 million. The Manager was reimbursed for administration expenses which totaled \$264,242 in 2002.

On January 17, 2003, Provident acquired all the issued and outstanding shares of Provident Management Corporation, Manager of the Trust and Provident, for consideration of \$18.0 million payable with the issuance of 1,682,242 exchangeable shares. The exchangeable shares are held in escrow and are releasable as to 25 percent per year beginning on June 30, 2003, and are releasable or may be forfeited in certain other limited circumstances. This management internalization transaction eliminates external management fees effective January 1, 2003. The share purchase agreement as a condition of closing provides for executive employment contracts for the former shareholders of Provident Management Corporation.

The full cost of this transaction, \$18.6 million including transaction costs of \$0.6 million, was expensed in 2003.

15. Future income taxes

The difference between the accounting value and the income tax value of assets and liabilities, which comprise the future tax liability, are as follows:

	December 31,	
	2003	2002
		(restated)
Petroleum and natural gas properties and other	\$ 49,273	\$ 102,122
Production facilities	8,128	14,724
Midstream facilities	1,404	—
	\$ 58,805	\$ 116,846

The future income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial income tax rate of 40.6 percent (2002 – 42.1 percent) as follows:

	Year ended December 31,	
	2003	2002
		(restated)
Expected income tax recovery	\$ (8,019)	\$ (2,860)
Increase (decrease) resulting from:		
Non-deductible Crown charges and other payments	14,226	12,728
Federal resource allowance	(8,563)	(7,382)
Alberta Royalty Tax Credit	(183)	(260)
Payments to the Trust	(33,454)	(16,808)
Income less related depletion and depreciation in a wholly owned partnership and in the Trust	382	(2,630)
Federal income tax rate changes and other	(20,867)	(1,202)
	\$ (56,478)	\$ (18,414)

16. Commitments

Under the terms of the Redwater purchase and sale agreement Provident is committed to assumption or cancellation of financial assurances that the vendor had with suppliers. These financial assurances, which guarantee performance under certain commercial contracts, total \$14.0 million.

Provident has office lease commitments that extend through April 2013. Future minimum lease payments for the following five years are: 2004 - \$2.3 million; 2005 - \$2.3 million; 2006 - \$2.4 million, 2007 - \$2.5 million; and 2008 - \$2.5 million.

17. Financial instruments and hedging

Provident's commodity price risk management program is intended to minimize the volatility of Provident's commodity prices and to assist with stabilizing cash flow and distributions. Provident seeks to accomplish this through the use of financial instruments and physical delivery commodity contracts from time to time to reduce its exposure to fluctuations in commodity prices and foreign exchange rates. Gains and losses relating to these transactions are deferred and recognized in the financial statement category to which the hedge relates at the time the underlying commodity is sold or when the positions are settled.

The carrying amounts of current assets, the reclamation fund, current liabilities and long-term debt as stated in the financial statements approximate their estimated fair value. Substantially all of the Trust's accounts receivable are with oil and gas marketers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks.

With respect to financial instruments, Provident could be exposed to losses if a counterparty fails to perform in accordance with the terms of the contract. This risk is managed by diversifying the derivative portfolio among counterparties meeting certain financial criteria.

(a) Commodity price

(i) Crude oil

For 2003, Provident paid out \$23.9 million to settle various oil market based contracts on an aggregate volume of 1,867,500 barrels. For 2002, Provident paid out \$13.0 million to settle various oil market based contracts on an aggregate volume of 2,286,250 barrels. The estimated value of contracts in place if settled at market prices at December 31, 2003 would have resulted in an opportunity cost of \$21.1 million (December 31, 2002 -\$13.3 million). The contracts in place at December 31, 2003 are summarized in the following table:

Year	Product	Volume	Terms	Effective Period
2004	Light Oil	4,500 Bpd	WTI US\$23.41 per bbl	January 1 - December 31
		500 Bpd	WTI US\$25.08 per bbl	January 1 - March 31
2005	Light Oil	2,000 Bpd	WTI US\$25.01 per bbl	January 1 - December 31
2004	Heavy Oil ⁽¹⁾	2,800 Bpd	US\$17.96 per bbl at Hardisty	January 1 - December 31

(1) The heavy oil price of US\$17.96 per bbl has been fixed through a combination of US dollar denominated WTI contracts combined with US dollar differential contracts.

(ii) Natural gas

For 2003, Provident paid \$25.0 million to settle various natural gas market based contracts on an aggregate of 23,063,900 gigajoules ("GJ"). For 2002, Provident received \$6.6 million to settle various natural gas market based contracts on an aggregate of 11,554,250 gigajoules ("GJ"). As at December 31, 2003 the estimated value of contracts in place settled at market prices at December 31 would have resulted in an opportunity cost of \$4.1 million (December 31, 2002 -of \$12.4 million). The contracts in place at December 31, 2003 are summarized in the following table:

Year	Product	Volume	Terms	Effective Period
2004	Natural Gas ^[2]	5,000 Gjpd	Cdn\$4.95 per gj	January 1 - December 31
		9,000 Gjpd	Cdn\$6.36 per gj	January 1 - March 31
		900 Gjpd	Cdn\$5.75 per gj	January 1 - October 31
		27,000 Gjpd	Cdn\$5.10 per gj	April 1 - October 31
		3,600 Gjpd	Cdn\$5.82 per gj	November 1 - December 31
		10,000 Gjpd	Funded Collar	
			Cdn\$5.50 - \$8.75 per gj	January 1 - March 31
		10,000 Gjpd	Costless collar	
			Cdn\$5.50 - \$7.85 per gj	January 1 - March 31
		5,000 Gjpd	Costless collar	
			Cdn\$6.00 - \$7.28 per gj	January 1 - March 31
		5,000 Gjpd	Costless collar	
			Cdn\$6.25 - \$8.00 per gj	January 1 - March 31
		3,000 Gjpd	Costless collar	
			Cdn\$5.50 - \$6.23 per gj	April 1 - December 31
		3,000 Gjpd	Costless collar	
			Cdn\$5.25 - \$7.10 per gj	November 1 - December 31
		2,000 Gjpd	Costless collar	
			Cdn\$5.50 - \$7.29 per gj	November 1 - December 31
2005	Natural Gas ^[2]	3,000 Gjpd	Cdn\$5.90 per gj	January 1 - March 31
		600 Gjpd	Cdn\$5.39 per gj	January 1 - October 31
		3,000 Gjpd	Costless collar	
			Cdn\$5.25 - \$7.10 per gj	January 1 - March 31
		2,000 Gjpd	Costless collar	
			Cdn\$5.50 - \$7.29 per gj	January 1 - March 31

[2] Natural gas contracts are settled against AECO monthly index.

(b) Foreign exchange contracts

Provident had two foreign exchange sell contracts in place in 2003 for a total of US\$1.25 million per month at an average exchange rate of Cdn\$1.56 per US\$1.

18. Cash reserve for future site reclamation

Provident established a cash reserve effective May 1, 2001 for future site reclamation expenditures. In accordance with the royalty agreement, Provident funds the reserve by paying \$0.25 per barrel of oil equivalent produced on a 6:1 basis into a segregated cash account. Actual expenditures incurred are then funded from the cash in this account. For the year ended December 31, 2003, \$2.5 million was contributed to the reserve and actual expenditures totaled \$2.2 million. For the year ended December 31, 2002, \$1.3 million was added to the cash reserve and actual expenditures totaled \$0.6 million.

19. Subsequent event

On February 4, 2004 the Trust issued 4,500,000 Trust units at \$11.20 per unit for proceeds of \$50.4 million (\$47.9 million net of issue costs) pursuant to a public offering prospectus dated January 22, 2004.

20. Comparative balances

Certain comparative numbers have been restated to conform with the current year presentation.

21. Reconciliation of financial statements to United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Any differences in accounting principles as they pertain to the accompanying financial statements are not material except as described below. All adjustments are measurement differences. Disclosure items are not noted. The application of US GAAP would have the following effects on net income as reported:

	Year ended December 31,	
	2003	2002
(Canadian \$000s, except per unit numbers)		[restated - Note 3]
Net income as reported	\$ 33,394	\$ 8,340
Adjustments		
Depletion, depreciation and accretion (b)	4,121	6,933
FAS 133 adjustment (c)	620	[27,666]
Interest on convertible debentures (g)	(7,341)	[4,901]
Non-cash general and administrative (h)	(1,433)	-
Future income taxes (a) (c) (e)	(6,595)	8,874
Income before cumulative effect of a change in accounting policy - U.S. GAAP	\$ 22,766	\$ [8,420]
Net income (loss), before change in accounting policy, per unit - basic and diluted	\$ 0.33	\$ [0.21]
Effect of a change in accounting policy due to ARO (b)		
Depletion, depreciation and accretion	(2,141)	-
Future income tax recovery	741	-
Net income (loss) - U.S. GAAP	\$ 21,366	\$ [8,240]
Net income (loss) per unit - basic and diluted	\$ 0.31	\$ [0.21]

The application of US GAAP would have the following effects on the balance sheet as reported:

	As at December 31,			
	2003		2002	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
			(restated - Note 3)	(restated - Note 3)
Assets				
Property, plant and equipment (a) (b)	\$ 884,891	\$ 867,703	\$ 719,859	\$ 678,728
Liabilities and unitholders' equity				
Other liability (c)	-	23,804	-	24,424
Asset retirement obligation (b)	33,182	33,182	32,645	12,245
Future income taxes (a) (b) (c) (e)	58,805	44,124	116,846	94,777
Convertible debentures - long-term liability (g)	-	119,395	-	61,279
Convertible debentures - equity (g)	119,395	-	61,279	-
Accumulated interest on convertible debentures - equity (g)	[12,242]	-	[4,901]	-
Capital contributions (d)	803,299	807,282	513,835	517,818
Contributed surplus (h)	1,305	2,738		
Accumulated (loss) income	\$ [4,029]	\$ [47,998]	\$ [37,423]	\$ [69,364]

- (a) The Canadian cost recovery ceiling test limits the capitalized costs for each cost centre to the undiscounted future net revenue from proved oil and natural gas reserves plus the cost of unproved properties less impairment, using year end prices. In addition, the aggregate value of all cost centres is further limited by including financing costs, administrative expenses, future abandonment and reclamation costs and income taxes. Under U.S. GAAP, companies utilizing the full cost method of accounting for oil and natural gas activities perform a ceiling test on each cost centre using discounted future net revenue from proved oil and natural gas reserves discounted at 10 percent. Prices used in the U.S. GAAP ceiling tests are those in effect at year end and financing and administrative expenses are excluded from the calculation. The amounts recorded for depletion and depreciation have been adjusted in the periods as a result of differences in write down amounts recorded pursuant to U.S. GAAP compared to Canadian GAAP.
- (b) Provident adopted the Canadian accounting standard for Asset Retirement Obligation (ARO), as outlined in CICA handbook section 3110 effective December 2003. This section is equivalent to Statement of Financial Accounting Standards (FAS) No.143, Accounting for Asset Retirement Obligations which was effective for fiscal periods beginning on or after January 1, 2003. Adoption of this standard in 2003 eliminated a US GAAP reconciling item related to accounting for the obligation, however, a difference is created in how the transition amounts are disclosed. US GAAP requires that the cumulative impact of a change in accounting policy be presented in the current year Consolidated Statement of Operations and Accumulated Loss and prior periods not be restated.
- (c) Since inception, Provident adopted FAS 133, Accounting for Financial Instruments and Hedging Activities, which requires that all derivatives be recorded on the balance sheet at their fair value, as either an asset or liability. Changes in the derivative's fair value are recognized in the current period earnings, unless specific hedge accounting criteria are met. If the derivative is designated a fair value hedge, the changes in the fair value of the derivative and the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated a cash flow hedge, the effective portions of the changes in fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedge item is realized. Ineffective portions of change in fair value are recognized in earnings immediately. The mark to market at the balance sheet dates of financial contracts have been reflected in these adjustments. Pursuant to Canadian GAAP, no mark to market is recognized in the financial statements.
- (d) Under U.S. GAAP, costs associated with a plan of arrangement would be expensed. Under Canadian GAAP, the costs are offset to capital contributions.
- (e) The Canadian liability method of accounting for income taxes is similar to the United States FAS 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Provident's financial statements or tax returns. Pursuant to U.S. GAAP, enacted tax rates are used to calculate future taxes, whereas Canadian GAAP uses substantively enacted rates.
- (f) The consolidated statements of cash flows prepared in accordance with Canadian GAAP conform in all material respects with U.S. GAAP except that Canadian GAAP allows for the presentation of operating cash flow before changes in non-cash working capital items in the consolidated statement of cash flows. This total cannot be presented under U.S. GAAP. U.S. GAAP would require this statement to be a note to the financial statements.
- (g) Under U.S. GAAP, convertible debentures are treated as debt and any distributions paid on these debentures are treated as interest expense. Under Canadian GAAP, convertible debentures are classified as equity and any distributions are recorded as a direct charge to unitholders' equity.
- (h) Provident harmonized its accounting treatment of unit based compensation with US GAAP in 2003 by adopting CICA handbook section 3870, "Stock-based compensation and other stock-based payments." For US GAAP purposes Provident follows FAS 123, "Accounting for stock-based compensation." Adoption of CICA handbook section 3870 allows for prospective application whereby only 2003 option grants are fair valued. Under FAS 123, all option grants are fair valued.

Recent US accounting pronouncements

Accounting for certain financial instruments with characteristics of both liabilities and equity

In 2003, the Financial Accounting Standards Board (FASB) issued FAS 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity." FAS 150 establishes standards for the measurement and classification of certain financial instruments with characteristics of both liabilities and equity. Provident adopted this standard with no impact to the consolidated financial statements.

Recent US accounting pronouncements issued but not implemented

In 2003, FASB issued Interpretation Number 46R, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." The standard mandates that variable interest entities be consolidated by their primary beneficiary. In Canada, the Accounting Standards Board (ACSB) has suspended the effective dates for accounting guideline 15, "Consolidation of Variable Interest Entities" to amend the guideline to harmonize it with FAS Interpretation Number 46R. At December 31, 2003 Provident did not have any variable interests in special purpose entities.

Recent Canadian accounting pronouncements issued but not implemented

Full cost accounting

In 2003, the CICA issued accounting guideline 16, "Oil and Gas Accounting – Full Cost." This accounting guideline replaces accounting guideline 5, "Full cost accounting in the oil and gas industry." The guideline alters the ceiling test calculation and is effective for fiscal years beginning on or after January 1, 2004. Accounting guideline 16 does not harmonize Canadian and US GAAP as US GAAP requires the ceiling test to be performed using a 10% discount rate while accounting guideline 16 requires that management's best estimate for fair value be used.

Exchangeable shares

In 2003, the CICA issued a draft EIC, "Income trusts – exchangeable shares." The EIC proposes that the retained interest of the exchangeable shareholders should be presented on the balance sheet as a non-controlling interest separate and distinct from unitholders' equity. The draft EIC is currently under review and was not enacted in final form as of the time of publication of Provident's consolidated financial statements.

Convertible debentures

In 2005, in accordance with CICA Handbook section 3860, "Financial instruments – disclosure and presentation," convertible debentures will be required to be classified as a liability on the balance sheet with interest payment recorded as an expense. For US GAAP, Provident classifies convertible debentures as liabilities on the balance sheet and records interest payments on convertible debentures as an expense.

Hedging relationships

CICA accounting guideline 13, "Hedging relationships" is effective for fiscal periods beginning on or after July 1, 2003. This accounting guideline addresses the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting. In addition, it establishes criteria for discontinuing the use of hedge accounting. Under accounting guideline 13, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective to continue accrual accounting for positions hedged with derivatives. Provident does not anticipate applying hedge accounting to its commodity price risk management program. Therefore, Provident expects to eliminate the US GAAP difference, "FAS 133 adjustment" (item (c) above) in 2004 and charge the mark to market amounts to the Canadian GAAP income statement.

investment programs and tax information for unitholders

Investment Programs

In May 2002, Provident implemented a Distribution Reinvestment, Premium Distribution and Optional Unit Purchase Plan. The plan offers a number of options for unitholders to maximize their investment by reinvesting their cash distributions or acquiring incremental units in the Trust without paying additional costs such as service charges or brokerage fees. Funds raised from reinvestment programs are redeployed to fund a portion of Provident's annual capital budget.

The first option for reinvestment offered by Provident is the Distribution Reinvestment Program (DRIP). This option allows unitholders to reinvest their cash distributions in additional units that are priced at a five percent discount to the volume weighted, average market price of the units on the Toronto Stock Exchange. This reinvestment program is available to Canadian and U.S. unitholders.

Provident was the first conventional energy trust in Canada to announce a Premium Distribution Plan. Under this option unitholders receive, on the same date that the regular distribution would be paid, a premium cash payment equal to 102 percent of the declared distribution. Currently, this reinvestment option is only offered to Canadian unitholders.

A third option for reinvestment is Provident's Optional Unit Purchase Plan. Under this program unitholders purchase additional units of the Trust for cash at the volume-weighted, average market price. This allows unitholders to acquire additional units without being subject to service charges or brokerage fees. Currently, this reinvestment option is only offered to Canadian unitholders.

Under both the DRIP and Premium Distribution programs, Provident reserves the right to prorate the participation in the plans in order to manage the amount of cash reinvested into the Trust's capital programs to ensure a prudent use of funds. Distributions reinvested in the DRIP and Premium Distribution programs will be subject to taxation in accordance with the rules applicable to normal distributions. Unitholders should consult their tax advisors concerning the tax consequences of participating in Provident's reinvestment programs.

Further information on the reinvestment options is available from Provident's agent Computershare Trust Company of Canada (Computershare) at 1 (800) 663-9097 (toll free) or by fax at (416) 981-9507. Alternatively, unitholders can obtain additional information directly from Provident's investor relations department at (403) 296-2233, by fax at (403) 294-0111 or via email at info@providentenergy.com. Additional information is also available on Provident's website: www.providentenergy.com.

Tax Treatment of Distributions

Canadian Residents

In Canada, a portion of the cash distributions paid by Provident to unitholders is generally taxed as investment income in the hands of the unitholder (the "taxable" portion) and a portion is generally tax-deferred (the "return of capital" portion).

The portion of the distribution that is tax deferred reduces the unitholders adjusted cost base on the units of Provident that they hold and will ultimately be used in determining any capital gain or capital loss when the units are disposed.

On or before March 15 of the year following the tax year, Computershare will prepare and provide all unitholders that received distributions during a calendar year a T3 – Statement of Investment Income for Canadian income tax purposes.

Non-Canadian Residents

For unitholders who are not residents of Canada for income tax purposes we encourage you to seek advice from a qualified tax advisor in your country of residence to advise you how the distributions will be taxed. Generally, monthly distributions paid to non-residents of Canada are typically subject to withholding tax at a prescribed 25 percent pursuant to the Income Tax Act of Canada. This withholding rate may be reduced in accordance with the provisions of a tax treaty between Canada and the unitholder's country of residence. For example, in the case of the tax treaty between Canada and the U.S., the withholding tax rate for residents of the U.S. has been reduced from 25 percent to 15 percent.

U.S. Residents

The Canadian withholding tax on distributions to U.S. residents is 15 percent. Provident's transfer agent (or brokers in cases where the units are not held directly by the beneficial owners) withholds a non-resident withholding tax equal to 15 percent of each monthly distribution.

For U.S. federal income tax reporting purposes Provident is considered a corporation. As a corporation, Provident's distributions to U.S. unitholders can be considered qualified dividends as determined under new U.S. Internal Revenue Code rules and U.S. Internal Revenue Service (IRS) reporting guidelines issued in 2003.

To assist with the preparation of U.S. tax information Provident's transfer agent, Computershare will issue Form 1099 DIVs to all registered U.S. unitholders in advance of the IRS April filing deadline. Non-registered holders should receive a Form 1099 DIV from their broker or intermediary.

Proposed Changes to the Canadian Income Tax Act

On March 22, 2004 the Federal Government of Canada presented its budget which proposed changes to the Canadian Income Tax Act which, if enacted, will affect Provident and other energy trusts.

As a result of its current structure and assets, Provident meets the mutual fund trust status provisions currently enacted in the Canadian Income Tax Act. A budget proposed amendment effective January 1, 2007 would change the provisions and would require Provident "not be maintained" primarily for the benefit of non-residents. If the proposed amendment is enacted Provident intends to comply with the requirements to maintain its mutual fund trust status. Provident has ample time, in excess of two and a half years, in which to evaluate alternatives to maintain mutual fund trust status.

Further, the budget proposes that subsequent to 2004, the withholding tax on distributions to non-residents be applied to both the taxable and tax deferred portion of the distribution. Provident currently withholds on 100 percent of its distributions to non-residents and therefore, distributions received by non-resident unitholders should remain unchanged.



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I prefer to receive information about Provident by:

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trust information

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John B. Zaozirny, Q.C.⁽²⁾

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Officers

Thomas W. Buchanan, CA

Chief Executive Officer

Randall J. Findlay, P.Eng.

President

David J. Fricker, P.Eng.

Vice President,
Corporate Development

Andrew G. Gruszecki, MBA

Vice President, NGL Services

Gary R. Kline

Vice President,
Commercial Development
and Risk Management

Lynn M. Rannelli

Assistant Corporate Secretary

Cameron G. Vouri

Vice President,
Production Operations and
Chief Operating Officer

Mark N. Walker, CMA

Vice President, Finance,
Chief Financial Officer and
Corporate Secretary

Auditors

PricewaterhouseCoopers LLP

Banking Syndicate

National Bank of Canada

Bank of Montreal

Bank of Nova Scotia

Canadian Western Bank

The Toronto-Dominion Bank

Engineering Consultants

McDaniel & Associates

Consultants Ltd.

Legal Counsel

Macleod Dixon LLP

Trustee

Computershare Trust Company
of Canada

Stock Exchanges

Toronto Stock Exchange Units:

Trading Symbol - PVE.UN

Debentures:

Trading Symbol - PVE.DB

PVE.DB.A

American Stock Exchange Units:

Trading Symbol - PVX

For Further Information:

Jennifer Pierce

Senior Manager, Investor Relations
and Communications

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Annual General Meeting

The Annual General Meeting of
Provident Energy Trust will be held at
3:00 p.m. MDT on Monday, May 10, 2004,
at the Delta Bow Valley Hotel,
209 – 4th Avenue S.E., Calgary, Alberta.
All unitholders are invited to attend.

(1) Member of Audit Committee

(2) Member of Governance,
Human Resources and
Compensation Committee

(3) Member of the Reserves,
Operations and EH&S
Committee



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